IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the preliminary prospectus (this "**document**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the document. In accessing this document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

This document comprises an advertisement for the purposes of paragraph 3.3.2R of the Prospectus Rules (the "**Prospectus Rules**") made under Part VI of the Financial Services and Markets Act 2000 and has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein (the "**securities**"). In particular, this document refers to certain events as having occurred that have not occurred at the date it is made available but that are expected to occur prior to publication of the prospectus to be published in due course (the "**prospectus**"). The information in this document is not inaccurate or misleading and is consistent with the information required to be in the prospectus. **This document is an advertisement and not a prospectus and investors should not subscribe for or purchase securities referred to in the document except on the basis of information in the prospectus. Copies of the prospectus will, following publication, be available from the registered office of HMS Hydraulic Machines & Systems Group plc (the "Company").** Although it is intended that the prospectus will be approved by the UK Financial Services Authority as a prospectus prepared in accordance with the Prospectus Rules, this document has not been so approved. Similarly, although it is intended that the prospectus will be made available to the public in accordance with the Prospectus Rules, this document has not been made available in accordance therewith.

This document may not be forwarded or distributed other than as provided below and may not be reproduced in any manner whatsoever. This document may only be distributed (i) in "offshore transactions" as defined in, and as permitted by, Regulation S under the US Securities Act of 1933 (the "Securities Act") or (ii) within the United States to QIBs (as defined below) in accordance with Rule 144A under the Securities Act ("Rule 144A") or another exemption from, or transaction not subject to, registration under the Securities Act. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorised. Failure to comply with this notice may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Nothing in this electronic transmission constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States or other jurisdiction and may not be offered, sold, pledged or otherwise transferred except (1) in accordance with Rule 144A to a person that the holder and any person acting on its behalf reasonably believes is a qualified institutional buyer within the meaning of Rule 144A (a "QIB"), or (2) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

The information contained in this document is directed solely at persons who are (1) outside the United Kingdom, (2) within the United Kingdom having professional experience in matters relating to investments or to persons of a kind described in Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons") or (3) in any member state of the European Economic Area (a "Member State") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC). Persons who are not relevant persons or qualified investors must not rely on or act upon the information contained in this document.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision in respect of the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document to any other person. The materials relating to the offering described herein do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc and Renaissance Securities (Cyprus) Limited (together, the "**Joint Global Coordinators**"), as named in this document, or any affiliate of a Joint Global Coordinator is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Global Coordinator or such affiliate on behalf of the Company and the Selling Shareholders named in this document in such jurisdiction.

This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Global Coordinators, nor any person who controls a Joint Global Coordinator nor any director, officer, employee or agent of a Joint Global Coordinator, nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and any hard copy version provided to you.

HMS Hydraulic Machines & Systems Group plc

(a company organised and existing under the laws of Cyprus)

Offering of up to 43,640,000 Global Depositary Receipts
Offer Price: US$ 8.25 per Global Depositary Receipt

This prospectus (the "**Prospectus**") relates to an offering (the "**Offering**"*)* by (i) HMS Hydraulic Machines & Systems Group plc, a company organised and existing under the laws of Cyprus (the "**Company**"), of up to 14,563,427 global depositary receipts ("**GDRs**"), representing newly issued ordinary shares in the Company, (ii) HMS Technologies Limited ("**H.M.S. Technologies**") a company organised and existing under the laws of Cyprus of 23,041,279 GDRs and (iii) Skye Commercial Corp., a company organised and existing under the laws of the British Virgin Islands (together with HMS Technologies, the "**Selling Shareholders**"), of 6,035,294 GDRs. The GDRs represent interests in ordinary shares of the Company, each with a nominal value of EUR 0.01 (the "**Ordinary Shares**"), and each GDR represents an interest in one Ordinary Share.

The Offering comprises (i) an offering of GDRs within the United States to certain qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A ("**Rule 144A**") under the US Securities Act of 1933, as amended (the "**Securities Act**"), or another exemption from, or transaction not subject to, registration under the Securities Act (the "**Rule 144A GDRs**") and (ii) an offering of GDRs outside the United States in off-shore transactions in reliance on Regulation S ("**Regulation S**") under the Securities Act (the "**Regulation S GDRs**").

In addition, the Company and HMS Technologies have granted to J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc and Renaissance Securities (Cyprus) Limited (together, the "**Joint Bookrunners**") an option exercisable within 30 days of the announcement of the offer price for the GDRs (the "**Offer Price**") to purchase up to 3,542,455 and 821,545 additional GDRs, respectively (for an aggregate of up to 4,364,000 additional GDRs) at the Offer Price, solely to cover over-allotments, if any, in connection with the Offering (the "**Over-Allotment Option**").

The GDRs have not been and will not be registered under the Securities Act and may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers are hereby notified that the sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act. The GDRs are subject to selling and transfer restrictions in certain jurisdictions. See "Selling and Transfer Restrictions".

The GDRs are specialised investments and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See *"Risk Factors"* beginning on page 8 for a discussion of certain matters that prospective investors should consider prior to making an investment in the GDRs. The Ordinary Shares are not, and are not expected to be, listed or traded on any stock exchange.

This document upon approval by the UK Financial Services Authority (the "**FSA**") will comprise a prospectus relating to the Company prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the Financial Services and Markets Act 2000 ("**FSMA**"). Application has been made to the FSA in its capacity as competent authority under the FSMA for the admission of up to 200,000,000 GDRs, consisting of 43,640,000 GDRs to be issued on the Closing Date (as defined below), up to 4,364,000 GDRs to be issued pursuant to the Over-Allotment Option and up to 151,996,000 GDRs to be issued from time to time against the deposit of Ordinary Shares with The Bank of New York Mellon (the "**Depositary**"), to the official list maintained by the FSA and to the regulated market of the London Stock Exchange plc (the "**London Stock Exchange**") for admission of the GDRs to trading under the symbol "HMSG". The regulated market of the London Stock Exchange is a regulated market under the Markets in Financial Instruments Directive (2004/39/EC). Admission to the official list maintained by the FSA together with admission to the regulated market of the London Stock Exchange constitute admission to official listing on a stock exchange, or "**Admission**". The Company expects that conditional trading through the International Order Book ("**IOB**") will commence on a "when and if issued" basis on or about the date hereof, and unconditional trading through the IOB will commence on or about the Closing Date. Prior to the Offering, there has been no public market for the GDRs or the Ordinary Shares. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the expected admission to the London Stock Exchange does not take place and will be at the sole risk of the parties concerned. The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.**

The Rule 144A GDRs will be evidenced by a master Rule 144A GDR (the "**Master Rule 144A GDR**"), which shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"). The Regulation S GDRs will be evidenced by a master Regulation S GDR (the "**Master Regulation S GDR**" and, together with the Master Rule 144A GDR, the "**Master GDRs**"), which will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**"). The Ordinary Shares represented by the GDRs will be held by BNY (Nominees) Limited, as custodian (the "**Custodian**"), for the Depositary. Except as described herein, beneficial interests in the Master GDRs will be held, and transfers thereof will be elected only through, DTC, Euroclear and Clearstream and their direct and indirect participants. Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. It is expected that delivery of the GDRs will be made against payment therefor in US Dollars in same day funds on or about 14 February 2011 (the "**Closing Date**") through the facilities of DTC in respect of the Rule 144A GDRs and through Euroclear and Clearstream in respect of the Regulation S GDRs.

Joint Global Coordinators and Joint Bookrunners

J.P. Morgan **Morgan Stanley** **Renaissance Capital**

The date of this Prospectus is 9 February 2011.

IMPORTANT INFORMATION

Each of the Company and the Selling Shareholders (in the case of the Selling Shareholders, only in respect of the information relating to the Selling Shareholders and the GDRs offered by them) accepts responsibility for the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, to the best of the knowledge and belief of the Company and the Selling Shareholders (in the case of the Selling Shareholders, only in respect of the information relating to the Selling Shareholders and the GDRs offered by them), the information contained in this Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

No representation or warranty, express or implied, is made, nor any responsibility assumed, by the Joint Bookrunners or any of their respective affiliates or advisors as to the accuracy, completeness or sufficiency of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Joint Bookrunners or any of their respective affiliates or advisors as to the past or the future. Accordingly, each of the Joint Bookrunners and each of their respective affiliates or advisors disclaims any and all liability whether arising in tort, contract or otherwise which each might otherwise have in respect of the information contained herein.

In this Prospectus, unless the context requires otherwise, references to the "**Company**" refer to HMS Hydraulic Machines & Systems Group plc, a company organised and existing under the laws of Cyprus, and references to the "**Group**" refer collectively to the Company and its consolidated subsidiaries.

The Joint Bookrunners are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In making an investment decision, prospective investors should rely on their own investigation and analysis of the Group, and their own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such prospective investors in connection with an investment in the GDRs. Any decision to buy the GDRs should be based solely on the information contained in this Prospectus. No person has been authorised to give any information or to make any representations in connection with the Offering other than those contained in this Prospectus. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by the Group, the Selling Shareholders or the Joint Bookrunners, any of their respective affiliates, advisers or any other person. At any time following the date of this Prospectus, the information contained in this Prospectus may no longer be correct and the Group's business, financial condition or results of operations may have changed.

No representation is made by the Company, the Selling Shareholders or the Joint Bookrunners or any of its or their respective representatives to prospective investors as to the legality of an investment in the GDRs. Prospective investors should not construe anything in this Prospectus as legal, business, financial, investment, tax or related advice. Prospective investors should consult their own advisers as to the legal, business, financial, investment, tax and related aspects of an investment in the GDRs.

This Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the GDRs offered in the Offering. The distribution of this Prospectus and the Offering may, in certain jurisdictions, be restricted by law and this Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this Prospectus comes are required to inform themselves of and observe all such restrictions and obtain any consent, approval or permission required. None of the Company, the Selling Shareholders, or any of the Joint Bookrunners accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs or the possession, circulation or distribution of this Prospectus or any other material relating to the Group or the GDRs in any jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction. Further information with regard to restrictions on offers and sales of the GDRs is set forth under "*Subscription and Sale*".

In connection with the Offering, each of the Joint Bookrunners and any respective affiliate acting as an investor for its or their own account(s) may subscribe for or purchase the GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities and any other of the Group's securities or related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed, placed or otherwise dealt with should be understood as including any issue, offer, subscription, placement or dealing by the Joint Bookrunners and any of their respective affiliates acting in such capacity. No Joint Bookrunner intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The contents of the Group's websites do not form any part of this Prospectus.

The Company may withdraw the Offering at any time, and the Company and the Joint Bookrunners reserve the right to reject any offer to purchase or subscribe for the GDRs in whole or in part and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

NEITHER THE US SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE GDRS OR THE ORDINARY SHARES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

In connection with the Offering, J.P. Morgan Securities Ltd. (the "**Stabilising Manager**") (or any agent or other person acting for the Stabilising Manager), may over-allot GDRs up to a maximum of 10% of the total number of GDRs comprised in the Offering or effect other stabilisation transactions with a view to supporting the market price of the GDRs at a higher level than that which might otherwise prevail in the open market. Such stabilisation activities may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the announcement of the Offer Price and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions, and there can be no assurance that stabilising transactions will be undertaken. Such stabilising, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price.

Save as required by law or regulation, the Stabilising Manager does not intend to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Prospectus has been prepared on the basis that all offers of GDRs, other than the offering of GDRs contemplated by this Prospectus in the United Kingdom, once the Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive, will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of GDRs. Accordingly, any person making or intending to make any offer within the European Economic Area (the "**EEA**") of the GDRs which are the subject of the Offering contemplated in this Prospectus should only do so in circumstances under which no obligation arises for the Company or any of the Joint Bookrunners to produce a prospectus for such offer. Neither the Company nor the Joint Bookrunners have authorised, or will authorise, the making of any offer of the GDRs through any financial intermediary, other than offers made by the Joint Bookrunners which constitute the final placement of the GDRs contemplated in this Prospectus. The expression "**Prospectus Directive"** means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant member state of the EEA), and includes any relevant implementing measure in the relevant member state of the EEA.

Each person in a member state of the EEA that has implemented the Prospectus Directive (a "**Relevant Member State**") other than, in the case of (a) below, persons receiving offers contemplated in this Prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any

GDRs under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Joint Bookrunner and the Company that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:

   (i) the GDRs acquired by it in the Offering have not been acquired on behalf of, or with a view to the offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Bookrunners has been given to the offer or resale; or

   (ii) where GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those GDRs is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer to the public" in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the Prospectus Directive includes any relevant implementing measure in each Relevant Member State.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

Neither the GDRs nor this document have been, or are intended to be, registered with the Federal Service for Financial Markets of the Russian Federation (the "**FSFM**") or any other state bodies that may from time to time be responsible for such registration. This Prospectus does not constitute a public offer or advertisement for the GDRs in the Russian Federation, and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the GDRs to any persons in the Russian Federation. Any information relating to the GDRs in this Prospectus is intended for, and addressed only to, "qualified investors" (as defined under Russian law) or persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

NOTICE TO INVESTORS IN THE UNITED STATES

The GDRs offered in the Offering have not been, or will not be, registered under the Securities Act, or with any securities authority of any state of the United States, and the GDRs may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Prospective investors are hereby notified that sellers of the GDRs may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on sales and transfers of the GDRs, see "*Selling and Transfer Restrictions*".

Recipients of this Prospectus in the United States are hereby notified that this Prospectus has been furnished to them on a confidential basis and is not to be reproduced, retransmitted or otherwise redistributed, in whole or in part, under any circumstances. Furthermore, recipients are authorised to use it solely for the purpose of considering a purchase of the GDRs in the Offering and may not disclose any of the contents of this Prospectus for any other purpose. This Prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the GDRs. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus. This agreement shall be relied upon by the Group, the Selling Shareholders, the Joint Bookrunners and their respective affiliates and agents, as well as persons acting on their behalf.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED

STATUTES ("**RSA**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

So long as any GDRs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company has agreed that it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish, upon request, to any holder or beneficial owner of such restricted securities, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is organised in Cyprus, and all of its assets and the Group's assets are located outside the United States and the United Kingdom, and the Company's senior management and most of the members of the Company's board of directors (the "**Board of Directors**") are resident outside the United States or the United Kingdom. As a result, it may not be possible to effect service of process within the United States or the United Kingdom upon the Company or any of its subsidiaries or such persons or to enforce US or English court judgments obtained against them in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or English securities laws. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy.

Further, substantially all of the Group's assets are located in Russia. Judgments rendered by a court in any jurisdiction outside Russia will generally be recognised by courts in Russia only if (i) an international treaty exists between Russia and the country where the judgment was rendered providing for the recognition of judgments in civil cases and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted and/or (iii) on the basis of reciprocity, if courts of the country where the foreign judgement is rendered have previously enforced judgements issued by Russian courts. No such federal law has been passed, and no such treaty exists, between Russia, on the one hand, and the United States or the United Kingdom, on the other hand. While Russian courts have recently recognised and enforced English and Dutch court judgments on grounds of reciprocity, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy. Therefore, foreign judgements against the Group's Russian subsidiaries may not be enforced or their enforcement may require completion of the complicated procedures specified above. In addition, in the absence of established court practice, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds. Furthermore, Russian courts have limited experience in the enforcement of foreign court judgments.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as "according to estimates", "anticipates", "assumes", "believes", "could", "estimates", "expects", "intends", "is of the opinion", "may", "plans", "potential", "predicts", "projects", "should", "to the knowledge of", "will", "would" and similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding the Group's business and management, the Group's future growth or profitability and general economic and regulatory conditions and other matters affecting the Group.

Forward-looking statements reflect the Group's current views of future events, are based on the Group's assumptions and involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause the Group's actual financial condition and results to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. The Group's business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include, but are not limited to, the following:

- fluctuations in the Group's financial results and financial conditions;
- changes in political, social, legal or economic conditions in Russia;
- the Group's ability to service the Group's existing indebtedness;
- the Group's ability to fund future operations and capital needs through borrowing or otherwise;
- the Group's ability to successfully implement any of the Group's business strategies;
- the Group's expectations about growth in demand for the Group's services;
- competition in the marketplace;
- inflation, interest rates and fluctuation in exchange rates;
- a changing regulatory environment; and
- the Group's success in identifying other risks to the Group's business and managing the risks of the aforementioned factors.

Additional factors that could cause the Group's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*". Any forward-looking statements speak only as at the date of this Prospectus. After the date of this Prospectus, neither the Company nor the Joint Bookrunners assume, and each of the Company and each of the Joint Bookrunners expressly disclaims, any obligation, except as required by law, the listing rules of the London Stock Exchange or the FSA, to update any forward-looking statements or to conform these forward-looking statements to the Group's actual results. All subsequent written and oral forward-looking statements attributable to the Group, and those acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Before making an investment decision prospective investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ.

None of the Company, its management or the Joint Bookrunners can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The following financial information, together with the notes thereto, of OAO HMS Group ("**HMS Group**"), the Company and OAO Giprotyumenneftegaz ("**GTNG**") is included in this Prospectus:

- the audited annual consolidated financial statements of HMS Group and its subsidiaries as at and for the years ended 31 December 2007, 2008 and 2009 prepared in accordance with International Financial Reporting Standards (the "**IFRS**") (the "**Annual Financial Statements**");
- the reviewed (unaudited) consolidated condensed interim financial information of HMS Group and its subsidiaries as at and for the nine months ended 30 September 2010 with 2009 comparatives, prepared in accordance with IFRS (the "**Interim Financial Statements**" and together with the Annual Financial Statements, the "**Consolidated Financial Statements**");
- the reviewed (unaudited) consolidated condensed interim financial information of the Company and its subsidiaries as at and for the nine months ended 30 September 2010 with 2009 comparatives, prepared in accordance with IFRS, as adopted for use in the European Union through the endorsement procedure established by the European Commission ("**EU IFRS**") (the "**Company Interim Financial Statements**");
- the audited annual financial statements of GTNG as at and for the years ended 31 December 2008 and 2009 prepared in accordance with IFRS (the "**GTNG Annual Financial Statements**");
- the reviewed (unaudited) condensed interim financial information of GTNG as at and for the nine months ended 30 September 2010 with 2009 comparatives prepared in accordance with IFRS (the "**GTNG Interim Financial Statements**" and together with the GTNG Annual Financial Statements, the "**GTNG Financial Statements**");
- the pro forma statement of comprehensive income prepared on the basis of: (i) the audited annual consolidated IFRS statement of comprehensive income of HMS Group for the year ended 31 December 2009; and (ii) the audited annual statement of comprehensive income of GTNG for the year ended 31 December 2009 (the "**Annual Pro Forma Statement of Comprehensive Income**"); and
- the pro forma statement of comprehensive income prepared on the basis of: (i) the interim reviewed (unaudited) condensed consolidated statement of comprehensive income of the Company for the nine months ended 30 September 2010, excluding the results of GTNG from the date of the acquisition by HMS Group, which are already included under point (ii) below; and (ii) the interim reviewed (unaudited) condensed statement of comprehensive income of GTNG for the nine months ended 30 September 2010 (the "**Interim Pro Forma Statement of Comprehensive Income**" and together with the Annual Pro Forma Income Statement, the "**Pro Forma Statements of Comprehensive Income**").

The Interim Financial Statements, the Company Interim Financial Statements and the GTNG Interim Financial Statements were prepared in accordance with International Accounting Standard 34 ("**IAS 34**"), "*Interim Financial Reporting*". The Consolidated Financial Statements, together with the respective notes thereto are included in the Prospectus, beginning on page F-1.

The Group has three reportable segments: the industrial pumps segment, the modular equipment segment and the engineering, procurement and construction ("**EPC**") segment. To measure performance of these segments, the Group examines certain segment financial information, including inter-segment and external revenue and EBITDA, as it believes that such information is the most relevant in evaluating the results of its segments relative to other entities that operate within the Group's industries. IFRS 8, *Operating Segments*, requires segment information to be prepared on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Under IFRS 8, a change in the type of information that is available to the chief operating decision maker (which, in the case of HMS Group, is the general director) in different reporting periods to determine operating segments does not require a restatement of the segment information for prior periods. The Group early adopted IFRS 8, *Operating Segments*, for the years ended 31 December 2008 and 2007. The basis for the Group's segment information for the years ended 31 December 2007 and 2008 and for the year ended 31 December 2009 and thereafter differ in certain respects. See Note 36 to the Annual Financial Statements, Note 32 to the Interim Financial Statements and Note 32 to the Company Interim Financial Statements.

Before 2009, management assessed the performance of the operating segments primarily based on management reports derived from statutory accounting records, other than Adjusted EBITDA, which was derived from audited consolidated financial statements prepared in accordance with IFRS. Accordingly, under IFRS 8, for the years ended 31 December 2007 and 2008 HMS Group determined its segment revenue based on its Russian GAAP accounting records and determined its segment Adjusted EBITDA based on its audited consolidated financial statements prepared in accordance with IFRS. Starting from 2009, management assesses the performance of the operating segments and determines its segment revenue and Adjusted EBITDA under IFRS 8 based on management reports primarily derived from unaudited IFRS financial information. As a result, in the Annual Financial Statements, segment financial information for the years ended 31 December 2008 and 2007 is not prepared on the same basis as the segment information for the year ended 31 December 2009 and, consequently, is not comparable.

To facilitate segmental comparisons across periods, the Group has presented segment revenue and Adjusted EBITDA based on IFRS accounting records which are the basis of HMS Group's audited or reviewed IFRS financial statements for the relevant period. See "*Selected Financial Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Basis of Preparation of the Consolidated Financial Statements and Financial Information*". This segment financial data has not been audited or reviewed. It also has not been prepared under IFRS 8. The Group believes, however, that a discussion of segment revenue and Adjusted EBITDA data based on IFRS accounting records which are the basis of the Group's audited or reviewed IFRS financial statements for the relevant period, rather than internal management reports or statutory Russian GAAP accounting records, provides a better basis for comparison of the performance of the Group's segments across periods than the Group's segment information prepared under IFRS 8. For a discussion of the Group's segment information prepared under IFRS 8, see Note 36 to the Annual Financial Statements, Note 32 to the Interim Financial Statements and Note 32 to the Company Interim Financial Statements.

Non-IFRS Financial Information

In this Prospectus, certain non-IFRS measures are reported. The Group's management believes that these non-IFRS measures provide valuable information to readers because they enable the reader to focus more directly on the underlying day-to-day performance of the Group's business. The non-IFRS financial information used by the Group in this Prospectus consists of Adjusted EBITDA and the Group's backlog estimate that it expects to receive in the future under existing contracts.

The Group defines Adjusted EBITDA as operating profit/loss adjusted for other operating expenses (net), excess of fair value of net assets acquired over the cost of acquisition, impairment of goodwill, impairment of property, plant and equipment and intangible assets, depreciation and amortisation, provision for impairment of accounts receivable, provision for obsolete inventories, warranty provision, provision for VAT receivable, provision for legal claims, defined benefits scheme expense/(income) and unused vacation allowance. Adjusted EBITDA is presented as a supplemental measure of the Group's operating performance, which the Group believes is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the integrated flow control solutions sector. Adjusted EBITDA has limitations as an analytical tool, and investors should not consider it in isolation as a substitute for analysis of the Group's operating results as reported under IFRS.

Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if the Group incurs more borrowings, on the Group's operating performance;
- Adjusted EBITDA does not reflect the impact of income taxes on the Group's operating performance;
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation on the Group's performance. The assets of the Group's business which are being depreciated, depleted or amortised will need to be replaced in the future and such depreciation and amortisation expense may approximate the cost of replacing these assets in the future. By excluding this expense from Adjusted EBITDA, Adjusted EBITDA does not reflect the Group's future cash requirements for these replacements. Adjusted EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment;
- Adjusted EBITDA does not reflect inventory impairment provisions;

- Adjusted EBITDA does not reflect provision for impairment of accounts receivable;
- Adjusted EBITDA does not reflect unused vacation allowance; and
- Adjusted EBITDA does not reflect fair value of net assets acquired over the cost of acquisition, impairment of property, plant and equipment and goodwill.

Other companies that operate in the Group's industry may calculate Adjusted EBITDA differently or may use it for different purposes than the Group, limiting its usefulness as a comparative measure.

The Group relies primarily on its IFRS operating results and uses Adjusted EBITDA only supplementally. See the Consolidated Financial Statements and the Company Interim Financial Statements included elsewhere in this Prospectus. EBITDA is not defined by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of the Group's operating performance under IFRS and should not be considered as an alternative to revenues, profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS or as an alternative to cash flow from operating activities or as a measure of the Group's liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business.

For a reconciliation of Adjusted EBITDA to profit for the year, see "*Selected Consolidated Financial and Operating Information—Non-IFRS financial information—reconciliation of Adjusted EBITDA to operating profit*", Note 32 to the Interim Financial Statements, Note 36 to the Annual Financial Statements, and Note 32 to the Company Interim Financial Statements.

Backlog

The amount of backlog at any reporting date is estimated to be the amount of backlog as at the preceding backlog reporting date, plus new or additional customer orders booked during the reporting period, less amounts of contract value booked as revenue under Generally Accepted Accounting Principles in Russia ("**Russian GAAP**") on an unconsolidated basis under the relevant contracts (see below), plus or minus adjustments made in the judgment of the Group's management, including, in respect of the backlog estimates included in this Prospectus, the application of the adjustment methodology described below, and in the case of certain large contracts, based on IFRS revenue recognition principles. The Group may also make certain adjustments to bookings to reflect amendment, expiry or termination of contracts, cancellation of orders, changes in price terms under contracts or orders, or other factors affecting the amount of potential revenue which the Group believes may be recognised under such contracts. See "*Risk Factors—Risks Relating to Financial and Accounting Matters and Internal Controls—The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS*".

The Group has reviewed its most significant contracts as at 31 December 2009 and 30 September 2010 (the "**Sample**") to test its initial backlog estimates. The Group estimates that 20 contracts accounted for approximately 87% of its final backlog estimates as at 31 December 2009, and 27 contracts accounted for approximately 77% of its final backlog estimates as at 30 September 2010. Based on this Sample, the Group determined how many contracts for which backlog was adjusted in connection with an initial calculation process and determined what proportion (in number of contracts) of the Sample these contracts constituted (the "**Adjustment Pool Proportion**"). The average level of absolute adjustment (the "**Average Adjustment Percentage**") that the Group made to the initial estimates under each contract it reviewed and adjusted, was deducted from the Adjustment Pool Proportion of the initially estimated backlog attributable to the contracts the Group did not review individually because of their number and smaller size. Because the remaining contracts were not examined individually, any actual adjustment to the original estimates could differ materially from that resulting from application of the Adjustment Pool Proportion and the Average Adjustment Percentage. The Group applied these adjustments to the backlog estimates in this Prospectus as it believes they provide a reasonable basis for such estimates as of the relevant dates. Such adjustments were applied to the Group's estimates of its total backlog as well as its backlog for certain sets of Group entities and for certain key contracts. See "*Business—Backlog*". These adjustments may vary from backlog estimates it publishes in the future and so backlog data may not be comparable from period to period.

Backlog is not a concept recognised under IFRS, Generally Accepted Accounting Principles in the United States ("**US GAAP**") or Russian GAAP. The Group's methodology for calculating backlog, including its

principles for defining backlog, its processes for calculating backlog estimates, and management's judgments in applying adjustments to its backlog estimates, is not based on IFRS. In particular, the amount of a contract's value that is deducted as already accrued revenue is not generally calculated in accordance with IFRS. When preparing its backlog estimates, the Group estimates how much revenue has been accrued under Russian GAAP on an unconsolidated basis, subsidiary by subsidiary, and deducts that amount from the contract value. The amount of this accrued revenue under Russian GAAP on an unconsolidated basis is likely to differ materially from revenue that would be accrued under IFRS on a consolidated basis. As an example, for certain large long-term manufacturing contracts, with respect to revenue recognition, IFRS prescribes the "percentage of completion method", whereas Russian GAAP prescribes the "completed contract method". Whereas under Russian GAAP the contract revenue and the respective contract costs are recognised respectively upon the full completion of the work under contract, under IFRS contract revenue and costs are recognised by reference to the stage of completion of the contract at the end of the reporting period. Accordingly, if at the end of a reporting period an applicable contract is partially performed, under IFRS it is possible to recognise revenue, whereas under Russian GAAP it is not. To the extent IFRS would permit the Group to recognise more revenue in a period than Russian GAAP, this would have a negative effect on backlog and vice versa. In connection with preparing the backlog estimates included in this Prospectus, the Group has adjusted its backlog for certain large contracts based on IFRS revenue recognition principles to bring it in line with its financial reporting, which has resulted in a material reduction in the corresponding backlog estimates when compared to amounts determined with reference to Russian GAAP. In addition, the Group does not have central systems to estimate backlog, and, as a result, backlog is not always estimated consistently from contract to contract. See *"Risk factors—The Group may have material weaknesses in its accounting and reporting systems and the internal controls relating to the preparation of IFRS financial statements".*

The Group does not take into account the potential timing of future performance in calculating backlog. In addition, a contract may be cancelled, terminated, amended or otherwise not completed as contemplated in the backlog calculation, or at all, and thus result in a materially different amount of revenue (or none at all) than that contemplated in the backlog calculation.

Accordingly, backlog estimates are not an indication of potential revenues, whether in accordance with IFRS or otherwise. Actual revenues and other measures of financial performance under IFRS in any financial reporting period may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS for the relevant periods. Furthermore, a comparison of backlog as of 31 December 2009 and 30 September 2010 may have limited value on account of the Group's acquisition of GTNG in June 2010, which is a significant contributor to the Group's total estimated backlog as of 30 September 2010. See "*Managment's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions*".

Frost & Sullivan Report

All statistical and market information provided by Frost & Sullivan Limited ("**Frost & Sullivan**") presented in this Prospectus under the headings: "*Summary*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry Overview*" and "*Business*" in this Prospectus has been reproduced from a report dated 29 November 2010 prepared by Frost & Sullivan at the request of the Group (the "**Frost & Sullivan Report**").

Frost & Sullivan has given and not withdrawn its consent to the inclusion of information from the Frost & Sullivan Report in this Prospectus, in the form and content in which it is included, and has authorised the contents of those parts of this Prospectus for the purposes of Rule 5.5.4R(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. Frost & Sullivan accepts responsibility for the information included in this Prospectus from the Frost & Sullivan Report and, to the best of Frost & Sullivan's knowledge and belief, having taken all reasonable care to ensure such is the case, the information included in this Prospectus from the Frost & Sullivan Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

Information Derived From Third Parties

The Group has obtained certain statistical and market information that is presented in this Prospectus on such topics as the Russian integrated flow controls solutions sector, the Russian economy in general and related subjects from the following third-party sources:

- the Central Bank of Russia (the "**CBR**");

- Rosstat;
- the Russian Ministry of Economic Development; and
- the IMF (as defined below).

This third-party information is presented in this Prospectus under the headings: "*Summary*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry*", "*Business*" and "*Certain Regulatory Matters*".

The Group has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Neither the Group nor the Joint Bookrunners have independently verified the figures, market data or other information on which third parties have based their studies.

The information derived from the official data of various Russian governmental agencies has been accurately reproduced by the Group, and as far as the Group is aware and is able to ascertain from information published by such Russian governmental agencies, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Group has relied on this information without independent verification. The official data published by Russian federal, regional and local government agencies is substantially less complete or researched than that of more developed countries. Official statistics, including data published by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this Prospectus is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

EXCHANGE RATE INFORMATION

The official currency of Russia, where the majority of the Group's assets and operations are located, is the Rouble (as defined below), which is the functional currency of the Company and its subsidiaries.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US Dollar. This information is based on the official exchange rate quoted by the CBR (the "**CBR Rate**"), which is set by the CBR without the CBR assuming any obligations to buy or sell the foreign currency at the exchange rate. Fluctuations in the exchange rate between the Rouble and the US Dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	RUR per US$1.00			
	High	**Low**	**Period average[(1)]**	**Period end**
Year ended 31 December				
2006	28.48	26.18	27.09	26.33
2007	26.58	24.26	25.49	24.55
2008	29.38	23.13	24.85	29.38
2009	36.43	28.67	31.72	30.24
2010	31.78	28.93	30.38	30.48
Nine months ended 30 September				
2009	36.43	29.39	32.68	30.09
2010	31.78	28.93	30.22	30.40
Month ended				
31 January 2011	30.62	29.67	29.97	29.67

Source: CBR

(1) The period average in respect of the relevant year or nine-month period, as applicable, is calculated as the average of the exchange rates on the last business day of each month for such relevant period. The period average in respect of a month is calculated as the average of the exchange rates for each business day in the relevant month.

On 8 February 2011 the CBR Rate per US$1.00 was RUR 29.37.

No representation is made that the Rouble or US Dollar amounts referred to herein could have been or could be converted into Roubles or US Dollars, as the case may be, at any particular rate or at all.

CERTAIN DEFINED TERMS

In this Prospectus:

- ***Belorussian Roubles*** or ***BYR*** means the lawful currency of the Republic of Belarus.
- ***CBR*** means the Central Bank of the Russian Federation;
- ***Euro*** or **€** refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time;
- ***Government*** means the federal government of the Russian Federation;
- ***LIBOR*** means the London interbank offered rate and is the rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market;
- ***Region*** means any of the 83 constituent territories of the Russian Federation including republics, territories (kray), regions (oblast), cities with federal status, autonomous areas (okrug) and an autonomous region (oblast);
- ***Rosstat*** means the Federal State Statistics Service in the Russian Federation;
- ***Rouble***, ***Roubles***, ***RUB*** or ***RUR*** means the lawful currency of the Russian Federation;
- ***Russia*** means the Russian Federation;
- ***Tax Code*** means the Tax Code of Russia;
- ***US Dollar***, ***US Dollars, USD*** or ***US$*** means the lawful currency of the United States of America;
- ***UAH*** or ***Ukrainian Hriyvnas*** means the lawful currency of Ukraine; and
- ***VAT*** means value-added tax.

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SUMMARY

This summary should be read as an introduction to this Prospectus and any decision to invest in the GDRs offered in the Offering should be based on a consideration of this Prospectus as a whole. Under the national legislation of the individual member states of the EEA, if a claim relating to the information contained in this Prospectus is brought as a legal proceeding before a court, the investor who is the plaintiff in the legal proceeding may have to bear the costs of translating this Prospectus prior to initiation of the legal proceeding. Civil liability attaches to the persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.

Overview

The Group is the leading pump manufacturer and provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utility sectors in Russia and the CIS. According to Frost & Sullivan, in 2009 the Group had a 41% market share in Russia (by revenues) in its core industrial pumps segments, a 35% market share in Russia (by revenues) in its core modular equipment segments and a growing presence in its core EPC segment. The Group's products are mission-critical elements of projects across a diverse range of industries. The Group has participated in a number of large-scale infrastructure projects in Russia, including providing pumps and modular equipment to the Vankor oil field and pumping stations for the Eastern Siberia—Pacific Ocean ("**ESPO**") oil pipeline.

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

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

The Group provides integrated flow control solutions through three complementary business units, each of which represents one of the Group's principal segments for accounting purposes: industrial pumps, modular equipment and EPC services.

Competitive Strengths

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

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

Strategy

The Group seeks to achieve continued organic growth by focusing on its higher margin integrated and highly engineered solutions, capitalising on positive industry trends and improving its overall operational

efficiency. The Group also intends to enhance its research and development capabilities leveraging the experience and knowledge base of its existing teams to develop upgrades and new solutions, as well as more energy efficient pumps. In addition, the Group will continue to pursue selective, value-enhancing acquisitions which enable it to enter attractive new markets, provide access to complementary technology and research and development facilities and which offer cost and revenue synergies with its existing businesses.

To achieve these objectives, the Group intends to:

- Focus on integrated solutions and highly-engineered products.
- Leverage and strengthen the Group's market position to benefit from growth factors in the Group's current core markets, and to expand and diversify into new markets.
- Enhance R&D capabilities.
- Improve operational efficiency.
- Pursue selective, value-enhancing acquisitions.

Risk Factors

An investment in the GDRs involves a high degree of risk, including, but not limited to, risks associated with the following matters:

- The Group's business depends on the levels of capital investment and maintenance expenditures by the Group's customers, which in turn are affected by numerous factors, including the state of global and Russian economies, fluctuations in the price of oil, taxation of the Russian oil and gas industry, availability and cost of financing, and state investment in 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.
- The Group relies on a limited number of key customers and contracts.
- The Group may incur losses due to unfavourable terms of contracts with certain large customers.
- The Group may incur losses on its long-term contracts, which could cause its revenues and earnings to fluctuate significantly.
- The Group operates in competitive industries and its failure to compete effectively could result in reduced profitability and loss of market share.
- The loss of any of the Group's key senior managers could have a material adverse effect on the Group's business.
- The Group is dependent on its ability to attract and retain sufficient skilled personnel that will enable it to achieve its strategic objectives.
- Rapid technological change could increase competition and require the Group to make substantial additional investments in its businesses.
- The Group's results of operations may be affected by severe weather conditions in the areas in which it operates.
- The Group's businesses may be subject to professional errors and omissions resulting in substantial property loss and other liability claims that may materially adversely affect its operations and profitability.
- The Group is vulnerable to fluctuations in raw materials costs.
- Compliance with health, environmental and safety laws and regulations could increase the Group's costs or restrict its operations.
- Recent changes in legislation governing construction activities in Russia could have a material adverse effect on the Group's business.

- The licences and permits that the Group requires for its business may be invalidated or may not be issued or renewed, or may contain onerous terms and conditions that restrict the Group's ability to conduct its operations or could result in substantial compliance costs or administrative penalties.
- The Company will be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the GDRs.
- The Group owns less than 100% of the share capital or interests of a number of its operating subsidiaries.
- If minority shareholders of the Group's subsidiaries successfully challenge or fail to approve interested party transactions, or other shareholder matters, it could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.
- Forced liquidation of the Group's subsidiaries due to insufficient or negative net assets, or the insolvency of such subsidiaries, could adversely affect its operations.
- The Company is a holding company and its ability to pay dividends or meet costs depends primarily upon receipt of sufficient funds from its subsidiaries.
- If transactions of members of the Group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal or contractual requirements, the remedies in the event of a successful challenge could include the invalidation of such transactions or the imposition of other liabilities on members of the Group.
- The Group may be unable to secure or protect its rights to intellectual property.
- Product liability claims may adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.
- The Group may be subject to claims stemming from its prior involvement in jurisdictions that are subject to OFAC and other sanctions.
- The Group's manufacturing facilities are subject to operational risks and the loss or shutdown of operations at any of these facilities may have a material adverse effect on its business, financial condition, results of operations, prospects and the value of the GDRs.
- Strikes and other labour disputes could adversely affect the Group's business.
- The assumptions underlying the Group's growth strategy may prove to be incorrect.
- As a result of the ongoing consolidation in the sectors in which the Group operates and plans to expand into, it may not be able to identify suitable targets or may have difficulties in negotiating favourable acquisition terms.
- The Group has acquired and may continue to acquire businesses or assets on the basis of limited financial and other information, which may result in the Group assuming unexpected or unforeseen liabilities and obligations.
- The Group may have difficulty integrating its acquisitions or the Group may not realise the anticipated benefits from its acquisitions.
- The Group's acquisitions and potential acquisitions may be subject to regulatory and other conditions and may not be completed on the terms negotiated or at all or the regulatory authorities may conclude that the Group acquired or created a new company in contravention of antimonopoly or strategic enterprises legislation.
- FAS could impose restrictions on the Group's activities.
- The history and composition of the Russian manufacturing and EPC market make data collection and comparison difficult and such data may be incomplete and/or subject to error.
- The Group's historical financial information may not be indicative of the Group's future performance.
- The Group may have material weaknesses in its accounting and reporting systems and the internal controls relating to the preparation of IFRS financial statements.
- The Group could be materially adversely affected if lenders accelerate the Group's debt due to any failure to comply with loan agreements.

- The Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms.
- Inflation could increase the Group's costs and decrease its operating margins.
- Limitations on the conversion of Roubles to hard currency in Russia or the devaluation of the Rouble could increase the Group's costs when paying dividends to its shareholders in the future and making payments in hard currency to suppliers and creditors, which could cause the Group to default on its obligations to them.
- The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS.
- Investors in the Offering will experience immediate and substantial dilution in net tangible book value per Ordinary Share.

Summary of the Offering

The Offering consists of an offering by the Company of up to 14,563,427 GDRs and by the Selling Shareholders of up to 29,076,573 GDRs representing interests in Ordinary Shares. In addition, the Company and HMS Technologies have granted to the Joint Bookrunners an Over-allotment Option to purchase up to 3,542,455 and 821,545 additional GDRs, respectively (for an aggregate of up to 4,364,000 additional GDRs) solely to cover over-allotments, if any, in connection with the Offering. The GDRs are being offered within the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act, outside the United States in reliance on Regulation S and outside Russia.

Application has been made to (i) the FSA in its capacity as competent authority under FSMA for the admission of up to 200,000,000 GDRs, consisting of 43,640,000 GDRs to be issued on the Closing Date, up to 4,364,000 GDRs to be issued pursuant to the Over-allotment Option and up to 151,996,000 GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with the Depositary, to the official list maintained by the FSA, and (ii) the London Stock Exchange for such GDRs to be admitted to trading on the regulated market of the London Stock Exchange.

The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.

Dividend Policy

The Company expects to invest the majority of any profit for the year to fund its capital requirements. Subject to reviewing its capital position against its current and expected future capital requirements, the Company intends to return not less than 25% of profit for the year, as set out in its consolidated IFRS financial statements, to its shareholders, in the form of dividends. The Board of Directors has not yet made any recommendation as to any payment of cash dividends in respect of the year ended 31 December 2010. Under the Joint Venture Agreement (as defined herein), HMS Technologies, the principal shareholder of the Company, and certain other shareholders of the Company have agreed to procure that the Company will not declare, make or pay any dividends for the year ended 31 December 2011, unless those shareholders otherwise agree. See "*Principal and Selling Shareholders*".

Use of Proceeds

The Company expects to receive net proceeds from the Offering (assuming no exercise of the Over-allotment Option), after deducting underwriting commissions, fees and expenses incurred in connection with the Offering, of approximately US$ 114.6 million. The Company will not receive any proceeds from the sale by the Selling Shareholders of GDRs.

The Company intends to use its share of the net proceeds of the Offering to repay or prepay, as the case may be, outstanding indebtedness of the Group in the amount of approximately RUR 3.3 billion, assuming no exercise of the Over-allotment Option, or RUR 4.0 billion of its outstanding indebtedness, assuming exercise of the Over-allotment Option in full and, to the extent that any net proceeds remain after payment of the foregoing, for general corporate purposes.

SUMMARY FINANCIAL INFORMATION AND OTHER INFORMATION

The summary consolidated financial information as at and for the years ended 31 December 2007, 2008 and 2009 and as at and for the nine months ended 30 September 2009 and 2010 set forth below has been derived from the Consolidated Financial Statements included in this Prospectus beginning on page F-1.

It should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Consolidated Financial Statements as at and for the years ended 31 December 2007, 2008 and 2009 and as at and for the nine months ended 30 September 2009 and 2010 and "Presentation of Financial and Other Information".

Summary Consolidated Comprehensive Statement of Income

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
				(unaudited)	
			RUR thousands		
Revenue	13,399,356	14,046,245	14,772,269	9,775,040	16,157,721
Cost of sales	(10,807,001)	(10,772,689)	(11,164,202)	(7,097,756)	(12,299,622)
Gross profit	**2,592,355**	**3,273,556**	**3,608,067**	**2,677,284**	**3,858,099**
Distribution and transportation expenses	(399,625)	(517,493)	(482,576)	(367,554)	(398,381)
Excess of fair value of net assets acquired over the cost of acquisition	—	33,958	—	—	—
General and administrative expenses	(1,228,171)	(1,653,383)	(1,826,419)	(1,317,691)	(1,373,794)
Impairment of goodwill	—	—	(116,998)	(116,998)	—
Other operating expenses (net)	(100,772)	(190,187)	(97,636)	(90,493)	(53,950)
Operating profit	**863,787**	**946,451**	**1,084,438**	**784,548**	**2,031,974**
Finance income	35,053	26,450	58,424	49,780	51,093
Finance costs	(249,097)	(488,369)	(865,140)	(658,315)	(668,200)
Share of results of associates	18,129	49,444	17,193	22,920	9,271
Profit before income tax	**667,872**	**533,976**	**294,915**	**198,933**	**1,424,138**
Income tax expense	(176,690)	(204,415)	(211,765)	(137,332)	(329,131)
Profit for the period	**491,182**	**329,561**	**83,150**	**61,601**	**1,095,007**
Profit for the period allocated as follows:				—	—
Entitlement of participants in respect of their interest in the Company	(372,430)	(281,927)	—	—	—
Remainder, being entitlement of equity and minority holders	**118,752**	**47,634**	**83,150**	**61,601**	**1,095,007**
Other comprehensive income/(loss)					
Currency translation differences	—	(74,103)	(70,502)	(99,812)	(62,151)
Change in cumulative currency translation reserve attributable to participants of the Company	(14,460)	4,462	—	—	—
Revaluation gain	—	37,035	—	—	—
Currency translation differences of associates	—	(31,340)	1,283	(3,514)	1,690
Other comprehensive loss for the period	**(14,460)**	**(63,946)**	**(69,219)**	**(103,326)**	**(60,461)**
Total comprehensive income/(loss) for the period	**104,292**	**(16,312)**	**13,931**	**(41,725)**	**1,034,546**

Summary Consolidated Balance Sheet Data

	As at 31 December			As at 30 September
	2007	2008	2009	2010
				(unaudited)
		RUR thousands		
ASSETS				
Non-current assets:				
Property, plant and equipment	2,867,035	3,928,373	3,954,807	5,714,419
Other intangible assets	46,589	53,439	47,109	87,265
Goodwill	207,329	306,682	306,992	1,873,992
Investments in associates	416,860	449,848	507,293	501,453
Deferred income tax assets	57,711	41,000	53,989	93,403
Other long-term receivables	50,911	17,285	33,362	163,889
Total non-current assets	**3,646,435**	**4,796,627**	**4,903,552**	**8,434,421**
Current assets:				
Inventories	1,852,958	2,432,504	3,179,644	3,259,431
Trade and other receivables	3,869,094	3,027,888	2,875,755	11,006,986
Current income tax receivable	29,212	46,516	57,974	75,742
Prepaid expenses	23,024	26,422	35,104	44,730
Cash and cash equivalents	377,203	669,482	757,661	1,897,817
Restricted cash	890	620	905	3,768
Non-current assets held for sale	—	—	—	96,255
Total current assets	**6,152,381**	**6,203,432**	**6,907,043**	**16,384,729**
TOTAL ASSETS	**9,798,816**	**11,000,059**	**11,810,595**	**24,819,150**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	—	591,180	591,180	591,180
Currency translation reserve	—	(122,942)	(168,051)	(215,099)
Retained earnings	—	1,635,995	1,308,801	2,289,106
Other reserves	—	(26,834)	(26,834)	(26,834)
Equity attributable to the Company's equity holders	**—**	**2,077,398**	**1,705,096**	**2,638,353**
Minority interest	**567,953**	**648,114**	**669,631**	**1,493,756**
TOTAL EQUITY	**567,953**	**2,725,512**	**2,374,727**	**4,132,109**
LIABILITIES				
Net assets attributable to the Company's participants:				
Paid-in capital	218,080	—	—	—
Cumulative surplus of net assets	1,538,482	—	—	—
Total net assets attributable to the Company's participants	**1,756,562**	**—**	**—**	**—**
Non-current liabilities:				
Long-term borrowings	52,631	787	3,396,766	4,134,881
Finance lease liability	41,388	21,767	8,479	341
Deferred income tax liability	237,553	231,447	197,307	607,813
Pension liability	118,276	120,898	125,407	293,589
Long-term payables	14,938	—	—	49,234
Provisions for liabilities and charges	—	—	11,550	29,570
Total non-current liabilities	**464,786**	**374,899**	**3,739,509**	**5,115,428**
Current liabilities:				
Trade and other payable	3,748,655	3,238,859	3,255,490	12,934,083
Short-term borrowings	2,898,852	4,081,922	1,878,774	941,694
Unused vacation allowance	103,990	150,306	140,222	146,819
Provision for legal claim	3,608	21,918	35,753	40,480
Warranty provision	14,656	27,112	33,771	36,870
Finance lease liability	22,816	19,776	13,094	11,053
Pension liability	11,676	17,242	20,922	9,492
Current income tax payable	23,593	22,419	25,069	47,228
Other taxes payable	181,669	320,094	293,264	1,403,894
Total current liabilities	**7,009,515**	**7,899,648**	**5,696,359**	**15,571,613**
TOTAL LIABILITIES	**9,230,863**	**8,274,547**	**9,435,868**	**20,687,041**
TOTAL EQUITY AND LIABILITIES	**9,798,816**	**11,000,059**	**11,810,595**	**24,819,150**

Non-IFRS Financial Information

Adjusted EBITDA

The Group defines Adjusted EBITDA as operating profit/loss adjusted for other operating expenses (net), excess of fair value of net assets acquired over the cost of acquisition, impairment of goodwill, impairment of property, plant and equipment and intangible assets, depreciation and amortisation, provision for impairment of accounts receivable, provision for obsolete inventories, warranty provision, provision for VAT receivable, provision for legal claims, defined benefits scheme expense/(income) and unused vacation allowance.

The Group presents Adjusted EBITDA as a supplemental measure of the Group's operating performance since it believes that it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the integrated flow control solutions sector. Adjusted EBITDA has limitations as an analytical tool, and investors should not consider it in isolation as a substitute for analysis of the Group's operating results as reported under IFRS. The Adjusted EBITDA information presented below has been prepared based on IFRS accounting records, which are the basis of HMS Group's audited or reviewed financial statements for the relevant period.

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
				(unaudited)	
			RUR thousands		
Adjusted EBITDA	1,423,168	1,643,861	1,890,408	1,421,356	2,251,411

Reconciliation of Adjusted EBITDA to Operating Profit

Reconciliation of Adjusted EBITDA for the Group to operating profit is as follows for the periods indicated.

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
Adjusted EBITDA	**1,423,168**	**1,643,861**	**1,890,408**	**1,421,356**	**2,251,411**
Other operating expenses, net	(100,772)	(190,187)	(97,636)	(90,493)	(53,950)
Excess of fair value of net assets acquired over the cost of acquisition		33,958			
Impairment of goodwill			(116,998)	(116,998)	
Impairment of property, plant and equipment and intangible assets			(14,230)	(14,320)	
Depreciation and amortisation	(275,411)	(344,038)	(342,889)	(257,949)	(266,899)
Provision for impairment of accounts receivable	(69,373)	(32,694)	(69,559)	(57,934)	35,539
Provision for obsolete inventories	(48,383)	(56,993)	(95,949)	(93,887)	112,560
Warranty provision	(11,817)	(12,455)	(18,150)	(11,434)	(22,376)
Provision for VAT receivable	—	(826)	(29,918)	(29,991)	(4,727)
Provision for legal claims	(1,266)	(18,311)	(13,655)	(13,678)	8,891
Defined benefits scheme expense/ (income)	(45,130)	(24,801)	(17,672)	13,335	(45,830)
Unused vacation (incl. in labour cost)	(7,229)	(51,063)	10,686	36,541	17,355
Operating profit	**863,787**	**946,451**	**1,084,438**	**784,548**	**2,031,974**

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Prospective investors should consider carefully, among other matters, the risks set forth below and the other information contained elsewhere in this Prospectus prior to making any investment decision in respect of the GDRs. Any of the risks described below, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations or future prospects and the trading price of the GDRs.

Described below are the risks and uncertainties that the Group believes are material, but these risks and uncertainties may not be the only ones that the Group faces. Additional risks that are not known to the Group at this time, or that it currently believes are immaterial, could also have a material adverse effect on the Group's business, financial condition, results of operations or future prospects and the trading price of the GDRs.

Risks Relating to the Group's Business and Industry

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

Demand for most of the Group's products and services depends on the levels of capital investment and maintenance expenditures by the Group's customers. The level of capital expenditures by the Group's customers depends, in turn, on the state of global and Russian economies, fluctuations in the price of oil, taxation of the Russian oil and gas industry, availability and cost of financing, and state investment in and other support for the Group's customers or in state-sponsored infrastructure projects. Any of these factors can result in postponement of capital spending decisions by the Group's customers or the delay or cancellation of existing orders, which can result in reduced demand for the Group's products and services, and may also erode average selling prices in the Group's industry.

- *Global and Russian economic conditions.* The businesses of many of the Group's customers, particularly oil and gas companies, are to varying degrees cyclical and have experienced periodic downturns. The Group's customers in these industries, particularly those whose demand for the Group's products and services is primarily profit-driven, historically have tended to delay large capital projects during economic downturns. Beginning in 2008 and continuing into 2009, the global economy experienced a significant downturn. According to the International Monetary Fund (the "**IMF**"), global GDP decreased by 8% in 2009 compared to 2008. According to Rosstat, Russian GDP fell by 7.9% from 2008 to 2009, total investments decreased by 16.2% and industrial production fell by 9.3%. Since the second half of 2010, there have been a number of positive developments in the global economy, as key emerging and developing economies, including Russia's, have stabilised or resumed growth. Nevertheless, a sustained recovery in the global and Russian economies is subject to a number of uncertainties, and no assurance can be given that the recovery will continue at any pace or at all or that global or Russian economic conditions will not deteriorate, leading to contraction in demand for the Group's products and services, including cancellation of existing orders comprising the Group's backlog.
- *Fluctuations in the price of oil.* The price of oil, both internationally and in Russia, has an impact on the levels of capital expenditure of the Group's oil and gas customers. The downward trend in the prices of Urals crude between 2008 and 2009, which fell from an average price of US$ 688.5 per tonne in 2008 to an average price of US$ 444.5 per tonne in 2009, according to Rosstat, negatively impacted capital investment levels of oil and gas companies in 2009 and 2010. However, expenditures required for the maintenance of production levels, including the repair and replacement of modular equipment and pumps, were not materially affected in 2008 and 2009. In addition, all of the projects nearing completion in 2008 and 2009 for which the Group was providing pumping equipment were completed. Nevertheless, no assurance can be given that expenditures on maintenance will not be curtailed in the event of any increased volatility or sustained decline in oil prices in the future.
- *Taxation of the Russian oil and gas industry.* The Group's customers in the Russian oil and gas sector are subject to a broad range of taxes imposed at the federal, regional and local levels that have a significant effect on their results of operations and investment programmes. Although the tax regime for companies extracting oil in Eastern Siberia and certain other less developed regions is more favourable in order to encourage investment in unexploited oil reserves that require the construction of highly capital intensive production and transport infrastructure, the tax regime is subject to any change in tax or economic policy, which may alter or remove the benefits provided. The current

system of taxation is an impediment to large-scale investment in most other regions of Russia. Should the Government offer tax breaks, capital investment in new greenfield projects may increase.

- *Availability and cost of finance in Russia.* Following the onset of the economic downturn in Russia in the third quarter of 2008, interest rates in Russia increased significantly and favourable credit terms became less readily available and, as a result, external sources of finance became more expensive for many of the Group's customers throughout 2009. In addition, the operating cash flows of these customers suffered due to higher finance costs on their existing variable rate debt, or with respect to any new debt incurred. As a result, many of these customers were forced to reduce their spending on capital expenditure and postpone or cancel proposed or existing projects.
- *State funded or supported investment.* A significant portion of the Group's revenues derives from customers which are owned or controlled by the Russian state or which directly or indirectly receive financing or other support from the Russian state or other entities it controls. Some of the Group's most significant customers by revenue are state-controlled entities, such as Rosneft, Transneft and Rosatom. Many of these customers have continued their capital-intensive projects and maintained capital investment and maintenance expenditures despite the economic downturn in Russia. In addition, the Group hopes to take advantage of increased levels of state investment in Russia's water utility infrastructure, much of which is outdated and in need of overhauling or replacement. See "*Management's Discussion and Analysis of Financial Conditions and Results of Operations—Significant Factors Affecting Results of Operations—State-funded/supported infrastructure projects*". The Government's ability to maintain these levels of spending in the medium term is dependent on continued economic growth in the country or the raising of external financing. In 2009 and 2010, for the first time in almost a decade, the Government ran budget deficits and budget plans for 2011-2012 envisage further increases in Government spending, which could require Russia to borrow on the international markets. Continued investment in state funded or supported infrastructure projects is therefore potentially dependent on continued favourable economic development and the Government's ability to raise sufficient finance.

Any of these factors, whether individually or in the aggregate, could have a material adverse effect on the Group's customers leading to reductions or postponements in their capital expenditures, thereby lowering demand for the Group's products and services and, as a result, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the GDRs.

The Group's business depends on the award of contracts and renewals and extensions of existing contracts.

A significant portion of the Group's sales are derived directly or indirectly from contracts that are subject to either a tender or selection process. The Group is not able to predict whether it will be awarded such contracts and, even if awarded such contracts, whether they will proceed as originally planned. The tender or selection process is affected by a number of factors outside of the Group's control, such as market conditions and corporate approvals required of the Group's customers. In preparation for a tender, the Group assesses its current capacity in terms of staffing, equipment and the availability of third parties, such as subcontractors and suppliers, and, if awarded the contract, determines how to deploy its resources in order to fulfil the contract. If the Group's assessment of its resources required to fulfil a contract is incorrect, or if a Group company is not selected or if the contracts a Group company enters into are delayed and a Group company is unable to perform a contract within the stipulated timeframe, the Group's work flow may be interrupted and its contracts may not be renewed, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group relies on a limited number of key customers and contracts.

For the years ended 31 December 2007, 2008 and 2009, the Group's top five customers accounted for 37%, 41% and 43% of total revenues, respectively. In the nine months ended 30 September 2009 and 2010, the Group's top five customers accounted for 36% and 56% of total revenues, respectively, of which Rosneft accounted for 23% and 10%, respectively and Transneft 16% and 6%, respectively and the Group anticipates that both Rosneft and Transneft will continue to account for a significant proportion of its revenues in 2011. In addition, the Group has a limited number of contracts with Rosneft and Transneft, which relate primarily to two key projects, the Vankor oil field development and the ESPO pipeline project, respectively. The loss of one or more of the Group's key customers or the failure of the Group to win additional contracts from its major customers could have a material adverse effect on its business, financial condition, results of operations, prospects and the value of the GDRs.

The Group may incur losses due to unfavourable terms of contracts with certain large customers.

Certain of the Group's largest customers, especially major oil and gas companies, exercise significant bargaining power in respect of the terms of contracts with Group companies. For example, contracts with such customers often provide for short periods for performance of obligations, the possibility of refusal by the customer of equipment supplied to it in circumstances where the equipment does not meet the customer's specifications, high penalties and other onerous conditions and sanctions for non-performance. Such customers may also leverage their market position to seek lower prices from the Group in certain cases. The Group may incur losses as a result of failure to perform such contracts or such contracts may be less profitable than initially expected, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group may incur losses on its long-term contracts, which could cause its revenues and earnings to fluctuate significantly.

The Group typically agrees to supply products or perform services for a fixed price from the initial award of the contract through to completion. The Group's cost estimates may be inaccurate or the Group may not be able to complete the work within the stipulated timeframe for reasons that may be beyond the Group's control, meaning that the Group may not realise profit on a particular contract in the anticipated timeframe or at all. On some occasions, the Group may be required to provide a quotation to a customer without being able to confirm its own costs for sourcing third party materials or services. In addition, unanticipated changes in market conditions may reduce the profitability of a particular contract. See "*—The Group is vulnerable to fluctuations in raw materials costs*".

The Group's long-term contracts for the manufacture of customised equipment and provision of EPC services typically involve complex design and engineering work or the significant procurement of equipment and materials. The Group's costs and any gross profit realised on such contracts may vary from the estimates on which such contracts were originally based. The reasons for this may include, among others:

- errors in cost, design or estimated time for performance;
- problems with the delivery of equipment and supplies;
- schedule changes;
- changes in the availability and cost of labour and material;
- failure of subcontractors to perform their contractual obligations; or
- other disruptions (such as delays in obtaining permits or prolonged adverse weather conditions).

Any of these factors may impact the Group's ability to complete the manufacture of equipment or perform its contracts within budget or in accordance with the agreed schedule.

In addition, in 2008, the Group expanded its operations in Eastern Siberia, providing modular equipment to the Vankor oil field, operated by Rosneft, and installed pumping stations on sections of the ESPO oil pipeline, which is currently being constructed by Transneft. Climatic conditions are especially harsh in this region, which makes it difficult for the Group to estimate accurately the costs related to the performance of its services. The Group expects that demand from oil and gas companies working in the Eastern Siberia will be increasing in furtherance of the Government's strategy to develop oil and gas reserves in this region and the Group intends to participate in tenders for the supply of equipment and services in this region in the future. However, the Group may not be able to accurately estimate its costs under such contracts.

Delays in the completion of orders or projects, or failure to meet certain key performance indicators may result in down time of the Group's manufacturing facilities and in certain circumstances may also expose the Group to damages, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group operates in competitive industries and its failure to compete effectively could result in reduced profitability and loss of market share.

The markets for industrial pumps, modular equipment and engineering services, including EPC services, in which the Group operates, are competitive. For example, the predecessors of certain major Russian oil and gas companies used to have pump and modular equipment servicing and EPC subsidiaries within their groups during Soviet times, some of which have been divested. As a result, a number of pump and modular

equipment servicing companies and EPC providers have emerged in the Russian market. See "*Business—Competition*". Competitive factors in the markets in which the Group operates include timing, price, quality and technical proficiency and product and service delivery on a timely basis. The Group's ability to enhance its existing products and services and technical proficiency and to increase the scale of its operations, while controlling its costs, is of primary importance to the Group's ability to compete effectively. The Group's current competitors and any future competitors that may enter the industrial pumps, modular equipment and EPC markets may have greater financial, technical and other resources, broader experience, lower cost structures and better relationships in the markets in which the Group operates. There can be no assurance that the Group will be able to maintain or increase its current market share in the future. In addition, more intense competition may force the Group to offer its products and services on less favourable terms and conditions. These competitive factors could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The loss of any of the Group's key senior managers could have a material adverse effect on the Group's business.

The success of the Group's industrial pumps, modular equipment and EPC businesses depends heavily on the continued service of its key senior managers, including Artem Molchanov, the Company's chief executive officer, Kirill Molchanov, first deputy chief executive officer, Andrey Nasledyshev, deputy chief executive officer, and Nikolay Yamburenko and Anatoly Nazarov, the heads of the industrial pumps division and modular equipment business units, respectively, Andrey Novikov, deputy head of the modular equipment business unit, Igor Tverdokhleb, director for research and development, and Vladimir Moiseyenko, head of the EPC business unit, German Tsoy, Chairman of the Board of Directors and Vladimir Lukyanenko, Member of the Board of Directors. 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. For example, according to Russian labour law, certain members of senior management could resign from the Group by giving the Group company by which they are employed as little as two weeks' notice. The Group is not insured against damages that may be incurred in case of loss or dismissal of its key specialists or managers. Moreover, the Group may be unable to attract and retain qualified personnel to succeed such managers. If the Group suffers an extended interruption in its services due to the loss of one or more such managers, its business, financial condition, results of operations, prospects and the value of the GDRs may be materially adversely affected.

The Group is dependent on its ability to attract and retain sufficient skilled personnel that will enable it to achieve its strategic objectives.

The successful implementation of the Group's growth strategy is heavily dependent on its ability to attract and retain qualified specialists for operating its manufacturing facilities and to work as part of its research and development ("**R&D**") teams to develop and enhance the Group's product portfolio and engineering services. Demand for engineers, equipment operators and other technical and management personnel is currently high in Russia and their supply is limited, particularly in the case of skilled and experienced engineers and service personnel working in the remote regions and harsh climates of the oil and gas regions of Russia. The Group's growth and profitability may be limited by the scarcity of engineers, equipment operators and other technical and management personnel or by potential increases in compensation costs associated with attracting and retaining these employees. The Group's future success will also depend on its continued ability to attract, retain and motivate highly qualified sales, technical, customer support, financial and accounting, marketing, promotional and managerial personnel. The competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and the Group may not succeed in its attempts to structure compensation packages in a manner consistent with the evolving standards of the Russian labour market. If the Group's compensation costs increase or the Group cannot attract and retain skilled personnel, its profitability could be negatively impacted and its production capacity and growth potential would be impaired, which could have a material adverse effect on its business, financial condition, results of operations, prospects and the value of the GDRs.

Rapid technological change could increase competition and require the Group to make substantial additional investments in its businesses.

The Group operates in an industry in which significant technological change developed or obtained by a competitor could negatively impact the demand for its products and services. The Group must anticipate and adapt to such technological change and develop and introduce, on a timely basis, competitively priced products and services that meet changing industry standards and customer preferences. As new technologies are developed, the Group may have to implement these new technologies at a substantial cost in order to remain competitive. The Group may not have, and may not be able to secure, adequate resources or funding to develop such technologies or may fail to direct its product development in the right technologies, which may lead to the Group incurring significant costs. Furthermore, certain of the Group's manufacturing equipment is obsolete and the Group may not be able to replace such equipment without significant cost or in a timely manner. Such equipment may be subject to breakdowns and defects, which may result in interruption of the manufacturing process. In addition, the Group's competitors may have greater resources with which to develop new technologies and may implement them before the Group does, which may allow them to provide lower-priced or better-quality products and services. If this occurs, it could limit the Group's ability to compete effectively and, as a result, decrease demand for the Group's products and services, which could have a material adverse effect on its business, financial condition, results of operations, prospects and the value of the GDRs.

The Group's results of operations may be affected by severe weather conditions in the areas in which it operates.

Adverse climatic conditions, such as cold weather, ice and snow in colder months, and flooding in warmer months, generally affect the Group's ability to provide some of its services. In some areas during the winter, temperatures may drop to as low as minus 40 degrees Celsius, which often makes it impossible for people to work outside. At the end of 2009 and the start of 2010, temperatures were extremely low, which led to a major decrease in the amount of work that the Group could carry out under its EPC services contracts, which, in turn, had a negative impact on the Group's revenues. If such severe weather conditions occur in the future, it could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group's businesses may be subject to professional errors resulting in substantial property loss and other liability claims that may materially adversely affect its operations and profitability.

The Group's business involves a high degree of professional judgment and errors could lead to liability claims under law, under the terms of the Group's contracts or product quality guarantees or otherwise, as well as adverse publicity. Furthermore, the services the Group performs and the products it manufactures are used in hazardous or extreme environments and in complex applications, including those associated with the exploration, development and production of oil and gas. An accident or a failure involving a product or service could cause personal injury, loss of life, damage to property, equipment or the environment, consequential losses and suspension of operations. The Group maintains limited insurance, typically only to the extent mandated by Russian, Ukrainian or other applicable law, and may not be adequately protected against liability for such events, including events involving third-party liability in respect of property or relating to the Group's operations. The Group does not have full coverage for all of its facilities and does not have any coverage for business interruption, environmental damage, construction risk and consequential damages, including lost production of its customers. The Group does not maintain separate funds or otherwise set aside reserves for accidents or failures and other such events. Moreover, the Group may not be able to maintain insurance at levels of risk coverage or policy limits that it deems adequate, nor can it guarantee that every contract contains and has properly incorporated adequate limitations on its liabilities. Any claims made under the Group's policies will likely cause the Group's premiums to increase. Any future damage caused by the Group's products or services that are not covered by insurance, are in excess of policy limits, are subject to substantial deductibles or are not limited by the incorporation of adequate contractual limitations of liability could reduce the Group's earnings and the cash available for its operations or lead to other material adverse effects on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group is vulnerable to fluctuations in raw materials costs.

Certain raw materials that the Group uses in its operations, particularly ferrous metals, have been subject to significant price fluctuations. Although the Group aims to reduce the risk of price increases on its long-term contracts and currency risk by entering into prepaid contracts with suppliers, there can be no

assurances that it will be able to continue to do so in the future or that it will be able to pass on any cost increases to its customers. Any unexpected material increase in the Group's cost of raw materials could have an adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Compliance with health, environmental and safety laws and regulations could increase the Group's costs or restrict its operations.

The Group's operations and properties are subject to regulation by various governmental entities and agencies, including in connection with obtaining and renewing licences and permits and ongoing compliance with existing laws and regulations. For example, the Group's operations routinely involve the handling of significant amounts of hazardous substances. The Group also uses radioactive measuring instruments and explosive materials in certain of its operations. Environmental regulations applicable to the Group's business include, for example, those concerning:

- the use of hazardous substances;
- the containment, transportation and disposal of hazardous substances and waste materials; and
- emission standards for operations.

The technical requirements of environmental laws and regulations are becoming increasingly complex and stringent and therefore more difficult and expensive to comply with. In addition, environmental, health and safety laws in Russia are often unclear and contradictory, which makes it difficult for the Group to ensure compliance with these laws. Moreover, Russian regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with new requirements may be costly and time consuming and may result in delays in the commencement or continuation of the Group's operations. Any failure by the Group to comply with such requirements may result in the imposition of sanctions, including civil and administrative penalties, upon the Group or its subsidiaries and criminal and administrative penalties applicable to officers of the Group's subsidiaries. There can be no assurance that the Group will be able to comply with existing or new requirements and, as a result, the Group may be required to cease certain of its business activities and/or to remedy past infringements. If, in the future, the Group is required to incur material expenditures to comply with new and/or existing health, safety and environmental laws, this could restrict its ability to grow and materially adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Recent changes in legislation governing construction activities in Russia could have a material adverse effect on the Group's business.

Since 1 January 2010 companies have no longer been required to have a licence to carry out construction works in Russia. Under the new regime, construction companies are required to apply to a self-regulated organisation which, if it is satisfied that the applicant complies with its requirements, issues a competency certificate that permits a construction company to operate. See "*Certain Regulatory Matters—Licensing—Construction Permits and Competency Certificates*". Due to the novelty of such institution to the construction industry there are many difficulties for construction companies. Each self-regulated organisation has its own particular requirements and is allowed to inspect its members at least once per year. If a company fails an inspection, it may have its competency certificate revoked. Furthermore, these self-regulated organisations can be inspected by the Government once every two years, and make unscheduled checks if so requested by a third party. Should a self-regulated organisation be revoked of its status following such a check, each of its members will lose their competency certificates and will no longer be authorised to carry out construction works. If any of the Group's subsidiaries that carries out construction services loses its competency certificate, it could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The licences and permits that the Group requires for its business may be invalidated or may not be issued or renewed, or may contain onerous terms and conditions that restrict the Group's ability to conduct its operations or could result in substantial compliance costs or administrative penalties.

The Group's business depends on the continuing validity and renewal of certain of its existing licences and permits, particularly in connection with the use of hazardous industrial facilities, the Group's ability to obtain any new licences and permits that may be required and the Group's compliance with the terms of its

licences and permits. Procedures for the renewal or issue of licences in Russia are frequently subject to delays and uncertainties. On certain occasions in the past, the Group was unable to promptly renew its existing licences and, as a result, had to run certain operations without a requisite licence. It is therefore, in practice, very difficult for companies operating in Russia to ensure that they hold all the licences required to conduct their activities at all times. There can also be no assurances that the Group's existing licences and permits will be renewed, that any new licences and permits that the Group applies for will be granted or that the Group will be able to comply with the terms of its licences and permits, particularly since Russian regulatory authorities exercise considerable discretion in the decision-making process relating to, and the terms and timing of, licence issuance and renewal and the monitoring of licensees' compliance with licence terms. In the event the licensing authorities determine that the Group is operating without a required licence or permit or that it has committed a material violation of a licence term, the Group may be required to suspend operations or incur substantial costs to eliminate or remedy the violation, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Requirements imposed by these authorities, which require the Group to comply, among other things, with numerous industrial standards, recruit qualified personnel, maintain necessary equipment, monitor their operations, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, are costly and time-consuming and may impede the efficient running of the Group's operations. In addition, it is possible that licences and permits applied for by, or issued, to the Group could be challenged by the Russian authorities as being invalid if they were determined to be beyond the scope of the authority of the relevant licensing authority. As a result, the licences and permits that the Group requires for its business may be invalidated or may not be issued or renewed, or if issued or renewed, may not be issued or renewed in a timely fashion, or may require the Group to comply with terms and conditions that restrict the Group's ability to conduct its operations or to do so profitably. The occurrence of any of these events could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Company will be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the GDRs.

Following the Offering, HMS Technologies, a private limited company registered in Cyprus, will continue to hold a controlling interest in the Company. See "*Principal and Selling Shareholders*". HMS Technologies will therefore be in a position to influence the operation and management of the Group and to elect and remove all of the Company's directors and control the outcome of matters submitted to the Company's shareholders' meetings for a vote. In addition, the Joint Venture Agreement set forth the voting procedure in respect of the election of the Board of Directors and certain other matters. HMS Technologies will therefore be able to control or significantly influence the outcome of any vote on any proposed amendment to the Company's Memorandum and Articles of Association, merger proposal, proposed substantial sale of assets or other major corporate transactions. The interests of the Company's controlling shareholders could conflict with those of the Company's other shareholders, including holders of the GDRs. There are no measures in place to ensure the control exercised by HMS Technologies is not abused.

The Group owns less than 100% of the share capital or interests of a number of its operating subsidiaries.

The Group owns less than 100% of the share capital or interests in a number of its operating subsidiaries. The Group's subsidiary OOO HMS Group Management Company generally enters into management contracts with those key Russian operating subsidiaries which have minority shareholders so that the Group is able to conduct the day-to-day operations of those subsidiaries. One of the Group's subsidiaries, GTNG, has issued preferred shares (that, unlike preferred shares in all other subsidiaries, are not controlled by the Group) that entitle their holders to the payment of annual dividends that cannot be less than the amounts specified in the respective charters of such subsidiaries. Under applicable Russian law, failure to declare and pay such dividends would result in the preferred shares becoming voting shares and the Group's share of voting ordinary shares would be diluted accordingly, which could affect the Group's ability to exercise effective control over GTNG. The existence of minority interests in certain of the Group's subsidiaries may limit its ability to increase its equity interests in these subsidiaries, to carry out transactions with other Group companies, to combine similar operations, to realise synergies that may exist between the Group's operations or to reorganise its structure in ways that may be beneficial to the Group. Furthermore, the Group may not be able to realise the full value of its interests, which may have a material

adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

If minority shareholders of the Group's subsidiaries successfully challenge or fail to approve interested party transactions, or other shareholder matters, this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Company and its subsidiaries in the past have carried out, and continue to carry out, transactions with other members of the Group which may be considered to be "interested party transactions" under Russian law, requiring approval by disinterested directors or disinterested shareholders depending on the nature and size of the transaction and certain other factors. In addition, Russian law requires a three-quarters majority vote of the holders of voting stock to be present at a shareholders' meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the balance sheet value of assets of the company and certain share issuances. For example, various Group companies have on previous occasions entered into suretyship agreements securing obligations of the Group's subsidiaries under loan agreements which constitute "interested party transactions" requiring approval by simple majority of disinterested shareholders. Minority shareholders of the Group's Russian subsidiaries may not approve interested party transactions requiring their approval or other matters requiring approval of minority shareholders or supermajority approval. In the event that these minority shareholders were to successfully challenge previous interested party transactions, or do not approve interested party transactions or other matters in the future, the Group could be limited in its operational flexibility, which could materially adversely affect its business, financial condition, results of operations, prospects and the value of the GDRs.

In general, the provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. Although the Group endeavors to obtain all corporate approvals required under Russian law to consummate transactions, there can be no assurance that all such corporate approvals are or have been obtained in accordance with Russian law. Accordingly, there is a risk that past and future transactions will be challenged on the basis of a failure to obtain all requisite approvals. Any such challenge could result in the invalidation of transactions that are important to the Group's business.

Forced liquidation of the Group's subsidiaries due to insufficient or negative net assets, or the insolvency of such subsidiaries, could adversely affect its operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or its operations. For example, under Russian corporate law, if the net assets of a Russian company calculated on the basis of its financial statements prepared in compliance with RAS are lower than its charter capital as at the end of its third or any subsequent financial year, the company must either decrease its charter capital or liquidate. Furthermore, if the net assets of a Russian company calculated on the basis of financial statements prepared in compliance with RAS are lower than the minimum charter capital required by law as at the end of its second or any subsequent financial year, such company must enter into a voluntary liquidation within six months from the end of the relevant financial year. If the company fails to comply with these requirements, governmental or local authorities can seek the involuntary liquidation of such company in court, and the company's creditors will have the right to accelerate their claims or, if such acceleration is impossible, demand termination of the company's relevant obligations as well as compensation for any damages related to such termination.

A company with negative net assets does not necessarily lack the ability to meet payment obligations as they come due. Many Russian companies have, or have had, negative net assets due to very low historical asset values reflected on their RAS balance sheets. Some Russian courts, in deciding whether or not to order the liquidation of a company with negative net assets, have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfil its obligations and had net assets in excess of the minimum charter capital at the time of liquidation.

In the case of the Group, one of its subsidiaries, SKMN, had negative net assets starting from 31 March 2009 through 31 December 2009. The Group has taken steps to remedy this and since 31 March 2010,

SKMN has not had negative net assets, meaning that SKMN is not currently susceptible to involuntary liquidation. As at the date of this Prospectus, none of the Group's subsidiaries has negative net assets. The involuntary liquidation of any of the Group's subsidiaries could have a material adverse effects on the Group's business, financial condition, results of operations, prospects and the value of the GDRs. Furthermore, certain Russian laws are very creditor friendly. For example, a company's creditor may file a petition to declare the company insolvent if a debt of more than RUR 100,000 has remained unpaid when due for more than three months and such debt has been confirmed by a court judgment. In 2010, one such creditor of SKMN, a Group subsidiary, used this provision of Russian law and filed a petition to declare SKMN insolvent; the proceedings were terminated after SKMN repaid the debt. As of the date of the Prospectus, SKMN has in excess of RUR 80 million of debt that has been overdue for more than three months. The Group intends to repay this debt and currently has sufficient liquidity to do so. However, there can be no assurance that the relevant creditors will not use this provision of Russian law to seek to have SKMN declared insolvent, for example, as a means of precipitating repayment. There can be no assurance that at the time of these proceedings, were they to be brought, the Group would be able to repay the relevant debt to avoid a declaration of insolvency. Such a declaration of insolvency could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Company is a holding company and its ability to pay dividends or meet costs depends primarily upon receipt of sufficient funds from its subsidiaries.

Because the Company is a holding company, its ability to pay dividends depends primarily upon receipt of sufficient funds from its subsidiaries. The Company is dependent upon dividends and other payments, including by way of loans, from its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of dividends, if any, on its shares and the payment of principal and interest on any of its borrowings incurred in the future. The Company's subsidiaries may from time to time be subject to restrictions on their ability to make such payments to the Company as a result of regulatory, fiscal and other restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Company's ability to pay dividends or to service its borrowings or meet any other costs it may incur. There can be no assurance that the Company will receive sufficient funds from its subsidiaries to meet its financial obligations. In some companies, including some in which the Group does not own 100% of the shares, preferred shareholders have rights to dividends that take precedence over those of the Company. See "*—The Group owns less than 100% of the share capital or interests of a number of its operating subsidiaries*". The inability on the part of some of the Company's subsidiaries to pay dividends or make other payments to the Company would negatively affect the amount of funds available to the Company to pay dividends and service its obligations. See "*Dividend Policy*" and "*Taxation—Russian Tax Considerations*".

If transactions of members of the Group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal or contractual requirements, the remedies in the event of a successful challenge could include the invalidation of such transactions or the imposition of other liabilities on members of the Group.

Members of the Group, or their predecessors-in-interest at different times, have taken a variety of actions relating to share issuances, share disposals and acquisitions, mandatory buy-out offers, valuations of property, interested-party transactions, major transactions, meetings of the Group members' governing bodies, other corporate matters and anti-monopoly issues and may take future actions that, if successfully challenged on the basis of non-compliance with applicable legal requirements of competent state authorities, by counterparties in such transactions or shareholders of the relevant members of the Group or their predecessors-in-interest, could result in the invalidation of such transactions and the Group companies' corporate decisions, restrictions on voting control or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, the Group's companies may not be able to defend successfully any challenge brought against such transactions. The invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Further, there can be no assurance that any of the Group's transactions or actions will not be challenged by state authorities, and if successfully challenged, that such transactions or actions could be invalidated and the invalidation of such transactions or actions could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group may be unable to secure or protect its rights to intellectual property.

The Group relies on a combination of patents, trademarks and trade secrets, which it has obtained itself or licensed from third parties. Intellectual property rights are difficult to protect in Russia and the other markets where the Group operates. In addition, litigation may be necessary to enforce the Group's rights, determine the rights of others or defend against claims of infringement. Certain of the Group's products are currently not protected by patents, which means that the Group cannot prevent its competitors from manufacturing such products. Whilst the Group is taking steps to register its intellectual property, this process may take a significant amount of time. If the Group is unable to secure or protect its intellectual property, its business, financial condition, results of operations, prospects and the value of the GDRs could be materially adversely affected. See "*Business—Intellectual Property*".

Product liability claims may adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group closely monitors all stages of the production cycle, from market research and product planning to sales and after-sales services. However, there can be no assurances that each of its products is and will be free from defects and that such defects would not result in a product recall and/or product liability claims or other claims relating to product quality. Although the Group takes precautions by way of providing product quality guarantees and free servicing and maintenance during the terms of the guarantee there can be no assurances that product liability claims would not be filed against the Group in the future. A significant proportion of the Group's products are used in the oil and gas and nuclear power generation sectors, which can give rise to serious environmental or technological incidents. Actual or claimed defects in the Group's products may give rise to claims against it for losses and expose it to claims for damages. The Group does not currently have product liability insurance to protect it against such risks, and there can be no assurances that it will be able to obtain such coverage in the future or that any insurance coverage would be adequate or available to protect it in the event of such a claim. Any or all of the above could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group may be subject to claims stemming from its prior involvement in jurisdictions that are subject to OFAC and other sanctions.

In the past, certain members of the Group have entered into several contracts for the supply of pumping equipment and spare parts to entities located in countries that are, or have been, the subject of comprehensive sanctions administered by the United States Office of Foreign Assets Control ("**OFAC**"), in particular Iran and Cuba.

Certain of the Group's subsidiaries have indirectly supplied products to entities located in Iran or Cuba. Prior to its acquisition by the Group in 2004, the Group's subsidiary Nasosenergomash supplied pumping equipment to Russia's nuclear power equipment and service export company, Rosatomstroyexport, which in turn supplied this equipment to the nuclear facility at Bushehr. The value of the contract under which these supplies were made was approximately US$ 755,000. No further sales of pumping equipment to Rosatomstroyexport for onselling to Iran were made following the Group's acquisition of Nasosenergomash. The Group's subsidiaries Nasosenergomash and ZAO Hydromashservice also engaged in approximately US$ 6 million of indirect sales between 2006 and the first half of 2010, to InterRAO UES, a Russian state-controlled energy utility, which on-sold the Group's products to the Havana thermal power plant in Cuba. The final delivery under these contracts was made in the first half of 2010.

In addition, between 2005 and 2010, the Group supplied pumping equipment and spare parts directly to the Ramin Power Plant (thermal power generation) and in 2008 to the Isfahan Steel Plant (a steel plant), both of which are located in Iran. Each of the contracts under which these sales were made represented less than 1% of the Group's revenues for the year in which the relevant contract was concluded, and the Company considers these contracts to be *de minimis* individually as well as in the aggregate, relative to the Group's revenues.

The Group does not believe that the transactions described above violate OFAC sanctions. While the Group has no intention to conduct a material portion of its business with OFAC-sanctioned parties in the future, there can be no assurance that the Group will not in the future engage in transactions with OFAC-sanctioned parties in Iran, Cuba, or other jurisdictions.

In addition, one of the Group's subsidiaries, ZAO Hydromashservice, participated in the "Oil-for-Food" programme established by the United Nations in Iraq in 1996. Since the suspension of the programme in 2003, several participants in the programme have been the subject of investigations by governmental authorities in the United States and elsewhere in connection with alleged bribes and unlawful financial transactions in relation to the "Oil-for-Food" programme, and other participants in the programme have reportedly been subject to allegations of inappropriate activity and/or threatened litigation.

Any allegations of unlawful behaviour, claims or litigation related to the Group's role in the Oil-for-Food programme, or any alleged violations of OFAC sanctions, could adversely affect the public image and reputation of the Group, and the perception by potential or actual investors and other stakeholders (such as suppliers and customers), and have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group's manufacturing facilities are subject to operational risks and the loss or shutdown of operations at any of these facilities may have a material adverse effect on its business, financial condition, results of operations, prospects and the value of the GDRs.

The Group's manufacturing facilities are subject to operational risks, such as a breakdown or failure of equipment, power supply or processes, damage due to unanticipated events, such as fires, explosions or adverse weather conditions, performance below expected levels of output or efficiency and obsolescence. In the event of equipment failure or damage to the Group's facilities, it may experience loss of revenues or customers due to material plant shutdowns or periods of reduced production and may require large capital expenditures to repair or replace faulty machinery or to repair damaged facilities. Loss of revenues or customers or large unexpected capital expenditures would have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Strikes and other labour disputes could adversely affect the Group's business.

Some of the Group companies' employees are represented by trade unions, which have collective bargaining agreements covering more than 90% of the Group companies' employees. A lengthy strike or other work stoppage at any of the Group's facilities could have a material adverse effect on its business, financial condition, results of operations, prospects and the value of the GDRs. See "*Business—Employees*".

The assumptions underlying the Group's growth strategy may prove to be incorrect.

The Group's strategy is to achieve continued organic growth by focusing on sales of integrated solutions and highly engineered products and services to customers in its current core markets expanding into new markets, enhancing its R&D capabilities to design and manufacture next-generation pumping equipment, improving operational efficiency as well as pursuing selective, value-enhancing acquisitions. The Group has adopted this strategy based on its belief that the demand for its high margin products and services is likely to grow, that the market for these products and services is consolidating and that large Russian vertically integrated oil and gas, power generation and water treatment companies are seeking to outsource certain operations and enter into contracts with specialised service providers for this purpose. A part of the Group's strategy is also based on the assumption that the increasing need to replace depleting oil and gas fields will lead to increased capital expenditures for development and production by oil and gas companies working in the markets in which the Group operates, compared to current levels. The Group also believes that the power generation and water utility sectors in the markets in which the Group operates will continue to grow in the near term, supporting the growth of the Group's business. See "*Business—Strategy*". Relying on these beliefs and assumptions, the Group has acquired businesses with operations in major oil and gas regions of Russia and made substantial investments in these acquired businesses. If any of the Group's beliefs or assumptions prove to be incorrect, the Group's return on its acquisitions, R&D and fixed assets and the expected growth resulting from the investments the Group has made in such acquisitions, R&D and fixed assets may not materialise, which, in turn, may materially adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

As a result of the ongoing consolidation in the sectors in which the Group operates and plans to expand into, it may not be able to identify suitable targets or may have difficulties in negotiating favourable acquisition terms.

While certain markets in which the Group operates in Russia remain fragmented, consolidation has been actively underway. The Group is likely to face increased competition from other companies for assets it

may wish to acquire. Increased competition may lead to higher prices being paid for acquired companies or their assets and may decrease the number of attractive acquisition opportunities. Such increased competition may arise in particular from large international companies either expanding their presence in or entering the Russian market, as well as from other domestic market participants, including state-owned or state-affiliated companies. As a result, the Group may be unable to identify suitable targets and future potential acquisitions may be more difficult to negotiate or cost more than the Group is willing to pay, which could undermine its growth strategy and leave the Group at a competitive disadvantage relative to larger companies, which in turn could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group has acquired and may continue to acquire businesses or assets on the basis of limited financial and other information, which may result in the Group assuming unexpected or unforeseen liabilities and obligations.

Because laws and corporate practices are generally not as developed in Russia and the CIS as in other markets, companies that the Group acquires may have engaged in business practices that were not in compliance with local law or the Group's internal policies.

Many companies in Russia and other CIS countries, including the Group's potential targets, do not prepare financial statements in accordance with IFRS, US GAAP, or any other set of internationally recognised accounting standards. While all Russian companies are required to prepare Russian statutory accounts, these accounts may not always reflect all material transactions. Therefore, the Group may not be able to rely on a target's documented financial information as being indicative of its past financial performance. In addition, there may be significant differences between the Group's accounting policies and those of a target (including policies related to revenue recognition, valuation of assets and capitalisation of expenses), which may also affect the comparability between a target and the Group. Because the Group may not have the benefit of reliable financial statements, it may discover areas of financial concern after making an acquisition that the Group did not foresee prior to the acquisition, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Prior to certain acquisitions, the Group received only limited financial and other information related to the target. As a result, the Group may have failed to discover liabilities of, or operating or other problems in, the businesses or assets it has acquired. For example, when the Group acquired SKMN, it relied on the company's Russian statutory accounts, which contained certain deficiencies in its accounting procedures and the identification of additional liabilities and losses that had not been evident to the Group until after the acquisition. When SKMN was acquired, the Group performed an internal audit of SKMN's accounting records which revealed certain deficiencies in its accounting procedures, and the identification of additional liabilities and losses. At the time of the acquisition, the Group introduced a harmonised set of accounting policies and internal controls for SKMN, which the Company believes, together with the application of the Group's standard accounting software, has helped to significantly reduce the risk of such issues arising in the future. At present, the operations and accounting processes at SKMN are centralised and controlled at Group level, including through remote access to SKMN's accounting software. Therefore, the Company believes that action the Group has taken will significantly reduce the likelihood of the deficiencies it identified recurring at SKMN. Because of the relatively short period of time the Group has owned or operated certain of its businesses or assets and particularly in cases where it carried out limited due diligence, the Group may not yet be fully aware of the extent of acquired liabilities or of the existence of other problems. In relation to certain acquisitions, including GTNG, the Group was not able to obtain full indemnification from the sellers. Although the Group currently has no reason to believe that the accounts of its acquired entities, including GTNG, contain material deficiencies, the emergence of additional liabilities arising from the Group's prior acquisitions could have a material adverse effect on the business, financial condition, results of operations and prospects of the acquired company or the Group, and on the value of the GDRs.

If an acquired company failed to comply with legal requirements or to administer good business practice and policies prior to its acquisition by the Group, the Group may not realise the value it anticipated to receive from the acquired company. This could lead to adverse consequences, such as the need to make large provisions against acquired assets, write down acquired assets, incur goodwill impairment charges or devote significant time and attention to institute compliant behaviours during post acquisition integration. Any such failures committed by the acquired company, either prior to its acquisition by the Group or after the acquisition but before the Group was able to discover such failures, could have a material adverse

effect on the business, financial condition, results of operations and prospects of the acquired company or the Group, and on the value of the GDRs.

The Group may have difficulty integrating its acquisitions or the Group may not realise the anticipated benefits from its acquisitions.

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. These challenges include, among others:

- integration of the acquired businesses, including management information and financial control systems, marketing, customer service and product offerings;
- transfer, assignment and re-registration of agreements and permits and consents into the Group's name following an acquisition;
- additional or unexpected capital expenditure requirements;
- retention of customers and suppliers;
- integration of different company and management cultures; and
- retention, hiring and training of key personnel.

The integration process may result in unforeseen difficulties and could require significant time and attention from management that would otherwise be directed at developing the Group's existing business. Further, the Group cannot be certain that the anticipated cash flows, synergies and cost savings from these transactions will materialise or reach expected levels. Inefficient integration of the newly acquired businesses poses a risk to the Group's operations. Any failure to successfully integrate the operations of the Group companies could adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The Group's acquisitions and potential acquisitions may be subject to regulatory and other conditions and may not be completed on the terms negotiated or at all or the regulatory authorities may conclude that the Group acquired or created a new company in contravention of antimonopoly or strategic enterprises legislation.

The Group holds a substantial share of the industrial pumps and modular equipment and services markets in Russia as a result of its acquisition strategy. Any future acquisitions may be subject to the prior approval of the Federal Anti-monopoly Service of Russia ("**FAS**"), and, should the targets qualify as strategic enterprises under Russian law, also to the prior approval of the Governmental Commission for Control over Foreign Investments in Russia (the "**Commission**"). The approval process may be lengthy and could delay the consummation of an acquisition and the realisation of its expected benefits. In addition, FAS may prevent an acquisition from taking place if it determines that it would be detrimental to competition in the relevant market. Alternatively, FAS may permit acquisitions, but subject to conditions, such as divesting of certain of the Group's assets. Although the Group has not been subject to such conditions in the past, there can be no assurance that it will be permitted to undertake its proposed acquisitions in a timely fashion, without remedies, or at all.

The relevant legislation also restricts in part the acquisition or founding of companies by groups of companies or individuals acting in concert without approval or notifications. As the legislation and regulations with respect to such matters are ambiguous, there can be no assurance that FAS will not conclude that an acquisition or the creation of a new company was completed in contravention of applicable legislation and competition has been reduced as a result. Any such finding could result in the imposition of administrative sanctions or require the divestiture of the newly acquired or created company or other assets, and could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

FAS could impose restrictions on the Group's activities.

Under Russian anti-monopoly legislation, FAS has the authority to categorise a company as a "dominant producer" in one or more market segments or regional markets in Russia. Although current Russian legislation does not clearly define "market" in terms of types of goods or services or geographic area, a

ruling by FAS categorising any of the Group's businesses as a dominant producer could result in the regulation of the Group's prices and the imposition of restrictions on the Group's commercial activities. The imposition of Government-regulated prices could, in turn, result in competitive disadvantages and a decline in the Group's revenues. Furthermore, FAS may impose fines and other sanctions for breach of anti-monopoly legislation.

Any Government-mandated withdrawal from certain regions or markets, any price controls or material fines as a result of a breach of anti-monopoly legislation could have a material adverse effect on the business, financial condition, results of operations and prospects of the acquired company or the Group, and on the value of the GDRs.

The history and composition of the Russian manufacturing and EPC market make data collection and comparison difficult and such data may be incomplete and/or subject to error.

Manufacturing and EPC services in Russia have undergone significant change during the last two decades. During the Soviet period, documentation concerning most industries was not recorded and monitored as stringently as is customary in other parts of the world. Additionally, in today's market, both in-house service providers associated with major Russian companies and independent service providers are reluctant to divulge information, such as pricing and sales, that is not readily available in the public domain. Some independent companies that are small have little visibility or operate within an extremely limited geographical area, resulting in information gaps about industry participants, particularly within a certain region. There is also uncertainty regarding the ownership of assets. In the absence of publicly available information concerning a significant proportion of participants in the industries in which the Group operates, many of whom are small and/or privately owned operators, prospective investors should not place undue reliance on the available data on market sizes and projected growth rates, including the market and competitive data presented in this Prospectus.

Risks Relating to Financial and Accounting Matters and Internal Controls

The Group's historical financial information may not be indicative of the Group's future performance.

This Prospectus contains the Consolidated Financial Statements, the Company Interim Financial Statements and the GTNG Financial Statements. The Group's results of operations have been significantly influenced by the acquisitions made by the Group in the periods presented in the Consolidated Financial Statements and the Company Interim Financial Statements. As a result, the Group's historical results are not directly comparable. Additionally, the historical performance of the companies the Group has acquired may not be indicative of the results achievable by the Group following such acquisition nor is there any assurance that can improve upon these results. See "*Management's Discussion and Analysis of Results of Operations—Acquisitions*".

The Group may have material weaknesses in its accounting and reporting systems and the internal controls relating to the preparation of IFRS financial statements.

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

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

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

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

If the Group is unable to maintain adequate financial reporting functions and internal control systems, the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the GDRs may be materially adversely affected.

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

The Group could be materially adversely affected if lenders accelerate the Group's debt due to any failure to comply with loan agreements.

The terms of most of the loan agreements under which the Group's various entities are borrowers contain a number of representations, undertakings and events of default, including those related to absence of current material litigations/litigations with a value exceeding a certain threshold, maintaining certain levels of net assets and indebtedness, restrictions on payment of dividends and obligations to maintain certain financial ratios and comply with applicable laws and regulations. For example, under certain loan agreements the Group is obligated to ensure that its total debt at the end of each quarter does not exceed its EBITDA (each as defined in the relevant loan agreement) for the last four quarters by more than five times. Additionally, many of the Group's loan agreements contain cross-default provisions whereby an event of default under one agreement may result in a cross-default under other agreements. According to the terms of some loan agreements, certain of the Group's actions aimed at developing the Group's business and pursuing the Group's strategic objectives, such as acquisitions and dispositions of assets, restructuring and other corporate activities, require prior consent from the lenders.

The Company estimates that as of 31 December 2010 the Group had in excess of RUR4,600,000 thousand of indebtedness outstanding under loan agreements. The Group breached certain covenants under a number of these loan agreements. The Company believes the Group is now in compliance with the covenants in all of its loan agreements. Furthermore, it believes that the Group has waivers in respect of all past defaults that were not curable (as well as for some that were ultimately cured) and has cured the rest that were curable. The enforceability of waivers is, however, not established under Russian law (substantially all of the agreements are with Russian entities and governed by Russian law) and it is possible that curing breaches does not eliminate the risk of acceleration.

The Company estimates that the amount of indebtedness outstanding as of 31 December 2010 under loan agreements with historic defaults for which it received waivers was approximately RUR 1,300,000 thousand. RUR 800,000 thousand of this indebtedness has the benefit of security over shares in Tomskgazstroy.

In addition, there are certain loan agreements where the Group breached certain covenants, did not obtain a waiver for all such breaches but instead brought itself into compliance with those covenants. The Company estimates that the amount of indebtedness outstanding as of 31 December 2010 under these loan agreements was approximately RUR 2,565,000 thousand. RUR 2,465,000 thousand of this debt has the benefit of security over shares in Neftemash, DGKhM and GTNG. While these estimates and the references to breaches or defaults above do not take into account potential cross defaults, since the Company believes the Group has waivers for breaches for or is now in compliance with all its loan agreements, and since the Company believes it has good relations with is lenders, in the context of the totality of circumstances described in this risk factor, the Company believes the risk of an attempt by the relevant banks to accelerate the Group's indebtedness, and any such attempt being successful, is low. Notwithstanding that assessment by the Company, there can be no assurance that an attempt at

acceleration by one or more banks would not be made, and that if it were made, it would not be successful. Furthermore, there can be no assurance that a Russian court would ultimately recognise the waivers the Group has obtained. An acceleration of its indebtedness, and enforcement of security, could have a material adverse effect on its business and results of operations.

In any event, the Company intends to use its share of net proceeds of the Offering to repay or prepay, as the case may be, outstanding indebtedness of the Group in the amount of approximately RUR 3.3 billion, assuming no exercise of the Over-allotment Option, or RUR 4.0 billion of its outstanding indebtedness, assuming exercise of the Over-allotment Option in full and, to the extent that any net proceeds remain after payment of the foregoing, for general corporate purposes. The Company intends subsequently to enter into new loan agreements if it would be necessary to support the Group's acquisition strategy and liquidity needs. The Company also intends to put in place more formal systems to monitor compliance with and avoid breaches of credit facilities. See "*Use of Proceeds*".

The Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms.

The Group's future capital requirements depend on many factors, including the Group's ability to expand its current business. To the extent that funds are insufficient to finance future acquisitions or operating requirements, the Group may need to raise additional funds through financings, or else curtail its growth plans. Any equity or debt financing, if available at all, may be on terms that are not favourable to the Group, and may dilute the interest of existing shareholders to the extent that the Group issues new equity or equity-linked securities. If the Group cannot obtain adequate capital on favourable terms or at all, the Group's business, financial condition, results of operations, prospects and the value of the GDRs may be materially adversely affected. In particular, the recent credit crisis and fluctuations in liquidity in the global capital markets, may make it more difficult for the Group to procure debt financing in the future on commercially reasonable terms or at all, and the high levels of uncertainty and volatility in the equity capital markets may make it difficult for the Group to procure equity financing on commercially reasonable terms or at all.

Inflation could increase the Group's costs and decrease its operating margins.

The Russian economy has been characterised by high rates of inflation. The annual average inflation rate was approximately 11.9% in 2007, 13.3% in 2008, 8.8% in 2009 and 8.8% during 2010, according to Rosstat. Certain of the Group's costs, such as salaries, are sensitive to rises in the general price level in Russia. In this situation, due to competitive pressures, the Group may not be able to raise the prices for its products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase the Group's costs and decrease its operating margins and have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Limitations on the conversion of Roubles to hard currency in Russia or the volatility of the Rouble could increase the Group's costs when paying dividends to its shareholders in the future and making payments in hard currency to suppliers and creditors, which could cause the Group to default on its obligations to them.

Russian currency control legislation pertaining to the payment of dividends currently permits the payment of dividends in Roubles on shares to non-Russian residents, but there can be no assurance that it will not be reversed in the future. Although there is an existing market within Russia for the conversion of Roubles into "hard" currencies, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no active market for the conversion of Roubles into foreign currencies outside Russia and certain CIS countries and no viable market in which to hedge Rouble-denominated investments. Any delay or other difficulty in converting Roubles into a foreign currency to make a payment, or any delay or restriction on the transfer of foreign currency from Russia could adversely affect the Group's ability to meet payment and debt obligations and any dividend payments in the future, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults. The Group operates the majority of its business in Roubles, including invoicing its customers and purchasing supplies and equipment. Although the Rouble is currently stable, there can be no assurance the Rouble will not experience significant volatility in the future. Any such volatility could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs. See "*—Risks Related to Russia and Other Emerging Markets—Economic instability in Russia and other markets in which the Group operates could harm the Group's business and investment plans*".

The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS.

The Group's backlog estimates are based on its estimated backlog as at the preceding backlog reporting date, plus new or additional customer orders booked during the reporting period, less amounts of contracts value booked as revenue under Russian GAAP on an unconsolidated basis under the relevant contract plus or minus adjustments made in the judgment of the Group's management. Such adjustments may be based on, among other things, the Group's detailed review of its larger contract terms and application of IFRS revenue recognition principles to revenue initially booked under Russian GAAP. See "*Presentation of Financial and Other Information—Backlog*". While the Group believes the adjustments to its backlog estimates provide a reasonable basis for such estimates as of the relevant date, there can be no assurance that a different set of parameters used in the preparing such adjustments, such as a different sample of contracts or application of IFRS revenue recognition principles to all contract that comprise the Group's backlog, would not yield different results.

Backlog is not a concept recognised under IFRS, US GAAP or Russian GAAP. The Group's methodology for calculating backlog, including its principles for defining backlog, its processes for calculating backlog estimates, and management's judgments in applying adjustments to its backlog estimates, is not based on IFRS. In particular, the amount of a contract's value that is deducted as already accrued revenue is not generally calculated in accordance with IFRS. When preparing its backlog estimates, the Company estimates how much revenue has been accrued under Russian GAAP on an unconsolidated basis, subsidiary by subsidiary, and deducts that amount from the contract value. The amount of this accrued revenue under Russian GAAP on an unconsolidated basis is likely to differ materially from revenue that would be accrued under IFRS on a consolidated basis. As an example, for certain large long-term manufacturing contracts, with respect to revenue recognition, IFRS prescribes the "percentage of completion method", whereas Russian GAAP prescribes the "completed contract method". Whereas under Russian GAAP the contract revenue and the respective contract costs are recognised respectively upon the full completion of the work under contract, under IFRS contract revenue and costs are recognised by reference to the stage of completion of the contract at the end of the reporting period. Accordingly, if at the end of a reporting period an applicable contract is partially performed, under IFRS it is possible to recognise revenue, whereas under Russian GAAP it is not. To the extent IFRS would permit the Company to recognise more revenue in a period than Russian GAAP, this would have a negative effect on backlog and vice versa. Revenue recognition principles under Russian GAAP and IFRS, as they apply to the Group's operations, are in many respects similar, with the exception of large long-term contracts. For such contracts the Group applies the percentage of completion method under IFRS and completed contract method under Russian GAAP. This difference typically results in the Group recognising revenue earlier under IFRS when compared to Russian GAAP under these types of contracts. In connection with preparing the backlog estimates as of 30 September 2010 included in this Prospectus, the Group has adjusted its backlog for certain larger long-term contracts based on IFRS revenue recognition principles to bring it in line with its financial reporting. This resulted in a reduction of RUR 2.35 billion in the Group's backlog estimates as of 30 September 2010 when compared to amounts determined with reference to Russian GAAP. In addition, the Company does not have central systems to estimate backlog, and, as a result, backlog is not always estimated consistently from contract to contract.

The Group's backlog estimate is also influenced by several factors including market demand, pricing and customer order patterns, some of which are beyond the Group's control. In addition, the Group may make certain adjustments to its bookings to reflect amendment, expiry or termination of contracts, cancellation of orders, changes in price terms under contract or order, or other factors affecting the Group's backlog estimate and the amount of potential revenue which the Group believe may be recognised under such contracts. The Company does not take into account the potential timing of future performance in calculating backlog. In addition, a contract may be cancelled, terminated, amended or otherwise not completed as contemplated in the backlog calculation, or at all, and thus result in a materially different amount of revenue (or none at all) than that contemplated in the backlog calculation.

As a result, the Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS.

Risks Relating to Russia and Other Emerging Markets

The Group's business, and substantially all of its assets, are located in Russia and certain other emerging markets. There are certain risks associated with an investment in Russia and other emerging markets.

General

Emerging markets, such as Russia, Ukraine and Belarus, are subject to greater risks than more developed markets, including significant economic, political and social, and legal and legislative risks, and the global financial and economic crisis could have a particularly significant adverse effect on emerging markets such as Russia, Ukraine and Belarus.

Investors in emerging markets, such as Russia, Ukraine and Belarus, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant economic, political and social, and legal and tax risks. Investors should also note that emerging economies, such as the economies of Russia, Ukraine and Belarus are subject to rapid change and that the information set forth herein may become outdated relatively quickly. Moreover, during times of financial crisis companies operating in emerging markets can face particularly severe liquidity constraints as foreign funding sources are withdrawn. The risk factors below focus on risks in Russia but many of them are also applicable to Ukraine and Belarus and other emerging markets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and prospective investors are urged to consult with their own legal and financial advisors before making an investment in the GDRs.

Political Risks

Changes in government policy or other Government actions could adversely affect the value of investments in Russia.

Since 1991, Russia has changed from a one-party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the ineffectiveness or failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. Ukraine and the other CIS countries where the Group operates are similarly vulnerable.

Although Russia has developed institutions and a legal and regulatory system characteristic of parliamentary democracies, these institutions and systems lack a long-term institutional history and are not as firmly established as their Western counterparts. The course of political, economic and other reforms has in some respects been uneven, and the composition of the governments—the prime minister and the other heads of federal ministries—has at times been unstable. Shifts in Government policy and regulation in Russia may be less predictable than in many Western democracies, and changes in Government policy that could affect the Group may (and in certain cases are likely to) continue.

For example, in February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, replaced the prime minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions among various state agencies and announced plans for a major overhaul of the federal administrative system. President Putin implemented reforms under which executives of sub-federal political units are no longer elected by the people, but instead are nominated by the President and confirmed by the legislature of the sub-federal political unit. Pursuant to legislation that was adopted in 2005 and took effect in December 2006, single-member-district elections for the State Duma were eliminated, and all votes are now instead cast on a party-list basis. On 12 September 2007, Mr. Putin dismissed the Government and subsequently appointed a new Government.

Similar or possible other future governmental changes, possible major policy shifts or a possible lack of consensus internally between the President, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could materially and adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The reversal of reform policies or the implementation of Government policies in Russia targeted at specific individuals or companies could harm the Group's business as well as investments in Russia more generally.

In recent years, the political and economic situation in Russia has generally become more stable and conducive to investment. However, major policy shifts, Government reshuffles and a lack of consensus among key political groups could hinder or reverse political, economic and regulatory reforms. Reform may also suffer if key Government officials engage in private business while in office, particularly when these business interests are in the industry that such officials regulate. Any such deterioration of Russia's investment climate might constrain the Group's ability to obtain financing, limit the Group's sales in Russia and otherwise materially and adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

In addition, the use of governmental power against particular companies or persons, for example, through the tax, environmental or prosecutorial authorities, could adversely affect the Russian economic climate and, if directed against the Company or any of its subsidiaries, the Group's senior management, major shareholders or the Group's beneficial owners, the Group's business, financial condition, results of operations, prospects and the value of the GDRs could suffer a material adverse effect. Russian authorities have challenged some Russian companies and prosecuted their executive officers and shareholders on tax evasion and related charges. In some cases, the results of such prosecutions and challenges have been significant claims against companies for unpaid taxes and the imposition of prison sentences on individuals. There has been speculation that in certain cases these challenges and prosecutions were intended to punish, and deter, opposition to the Government or the pursuit of disfavoured political or economic agendas. There has also been speculation that certain environmental challenges brought by Russian authorities in the oil and gas as well as mining sectors have been targeted at specific Russian businesses under non-Russian control, with a view to bringing them under state control. More generally, some observers have noted that takeovers of major private sector companies in the oil and gas sector by state-controlled companies following tax, environmental and other challenges may reflect a shift in official policy in favour of state control at the expense of individual or private ownership, at least where large and important enterprises are concerned.

Moreover, regulatory authorities in Russia have a high degree of discretion and at times appear to exercise their discretion arbitrarily, without hearing or prior notice. Such arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions, civil actions and expropriation of property. Arbitrary Government action, if directed at the Company, any of its subsidiaries, the Group's senior management or the Group's major shareholders or beneficial owners, could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs. Arbitrary Government actions directed against other Russian companies (or the consequences of such actions), may generally impact on the Russian economy, including the securities market, which could also result in a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Political and other conflicts create an uncertain operating environment that hinders the Group's long-term planning ability and could adversely affect the value of investments in Russia.

Russia is a federation of 83 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the federation and the Government is, in many instances, unclear and remains contested. Lack of consensus between the Government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, in the past, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts in Russia and such challenges may occur in the future.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, which can halt normal economic activity and disrupt the economies of neighbouring regions. For example, violence and attacks relating to the Chechen conflict have spread to other parts of Russia and several terrorist attacks have been carried out in other parts of Russia, including Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened

security measures are likely to cause disruptions to domestic commerce and exports from Russia. These factors could materially adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

A deterioration in relations between Russia and the other former Soviet republics could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

Since 1999, Russia has attempted to reassert its geopolitical interests in other former Soviet republics, some of which are current and potential future markets for the Group's services and products. On several occasions, this has resulted in the deterioration of Russia's relations with such countries as well as with other members of the international community, including the United States and various countries in Europe. Many of these jurisdictions are home to financial institutions and corporations that are significant investors in Russia and whose investment strategies and decisions may be affected by such conflicts and by worsening relations between Russia and its immediate neighbours.

For example, a military conflict arose in August 2008 between Russia and Georgia when Russian troops entered South Ossetia. Significant fighting ensued between Russian and Georgian troops in South Ossetia, as well as elsewhere in Georgia. As a result of such conflict, the Russian stock exchanges experienced heightened volatility. The deployment of Russian warships to blockade ports along the Georgian Black Sea coast threatened to draw Ukraine into the conflict, as Ukraine indicated that it might refuse to permit Russian warships participating in the blockade to return to their home port of Sevastopol on the Crimean peninsula. Although the Crimean peninsula is Ukrainian territory, it has been claimed by various high ranking Russian politicians to belong to Russia for a variety of ethnic and historical reasons. The relationship between Ukraine and Russia has historically been strained for other reasons as well, including, among other things, Ukraine's failure to pay or delay in paying arrears relating to the supply of energy resources, other border disputes and the Russian gas monopoly Gazprom's decision to increase the price of natural gas sold to Ukraine. In addition, Ukraine's and Georgia's possible accession to NATO and the European Union is a significant source of tension between Russia and those republics. If disputes with Ukraine were to disrupt or reduce the flow of Russia's trade with Ukraine or through Ukrainian ports or pipelines, Russian exports and/or export capacity could be adversely affected, and such effect could be material. Moreover, Russia's relations with Belarus have recently been strained over gas supplies.

The Group's subsidiary Nasosenergomash is based in Ukraine and manufactures pumps for the thermal and nuclear power generation industry, primarily for export to Russia. The Group's subsidiary Promburvod is located in Belarus and manufactures pumps for the water industry and public utilities sector for export to Russia and for sale domestically. The emergence of new or escalated tensions between Russia and other former Soviet republics, including in particular, an escalation of conflict between Russia and Ukraine or Russia and Belarus, including the imposition of trade sanctions or embargoes, or renewed fighting between Russia and Georgia, could negatively affect the Russian economy, the current and potential future markets for the Group's services and products, and the ability to obtain financing on commercially reasonable terms. Any of the foregoing circumstances could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

Economic Risks

Economic instability in Russia and other markets in which the Group operates could harm the Group's business and investment plans.

From 2000 until the first half of 2008, Russia experienced rapid growth in its gross domestic product, higher tax collections and increased stability of the Rouble. However, the Russian economy was adversely affected by the global financial and economic crisis that began in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in gross domestic product around the world. A sustained deterioration of the economic situation in the world may impact the profitability of the Group's business. Any of the following risks which the Russian economy has experienced at various times in the past and some of which have already occurred during the crisis may have or have already had a significant adverse effect on the investment climate in Russia and, in turn, may burden or have already burdened the Group's operations:

- significant declines in GDP;
- high levels of inflation;
- increases in, or high, interest rates;

- sudden price declines in the natural resource sector;
- instability in the local currency market;
- high levels of Government debt relative to GDP;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- widespread tax evasion;
- growth of a black and grey-market economy;
- widespread use of barter and non-liquid bills in settlements for commercial transactions;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the price of crude oil, which decreased by approximately 70% in the second half of 2008. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy.

In July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer drought and record high temperatures, have resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia's largest import demand for over ten years. The costs associated with controlling and reducing the fires, containing environmental concerns and repairing the damage caused by the fires may have an adverse impact on the Russian economy.

Any deterioration of general economic conditions in Russia could adversely influence the economic stability and demand for various products, including those sold by the Group, and therefore could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The physical infrastructure in Russia is in poor condition, which could disrupt normal business activity.

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained since then. Particularly affected are the rail and road networks, power generation and transmission, communication systems, water systems and building stock. Electricity and heating shortages in some of Russia's regions have on occasion seriously disrupted local economies. For example, in May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for a full day, disrupting normal business activity. Other parts of the country face similar problems. Furthermore, in August 2009, an accident occurred at the Sayano-Shushenskaya Hydroelectric Power Plant in Southern Siberia, the largest such plant in Russia in terms of installed capacity, when water from the Yenisei River flooded the turbine and transformer rooms at the power plant's dam, killing more than 70 people and causing billions of Roubles in damage. As a result of the accident, the plant halted power production, leading to temporary power shortages for both residential and industrial consumers.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt access to communications and add costs to doing business in Russia and interrupt business operations. This could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

The Russian banking system remains under-developed.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil.

Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks.

Prior to the global financial crisis that began in 2008 and continued into 2009, there had been a rapid increase in lending by Russian banks, which many believe was accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market was leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which further deteriorated the risk profile of Russian bank assets.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. The global financial crisis led to the collapse or bailout of some Russian banks and to significant liquidity crises for others. Profitability levels of most Russian banks were adversely affected by the crisis. As a result, the Government injected substantial funds into the banking system amidst reports of difficulties among Russian banks and other financial institutions.

Any future banking crisis or the bankruptcy or insolvency of any banks with which the Group does business could adversely affect the Group's business. Another banking crisis, or the bankruptcy or insolvency of the banks which hold the Group's funds, could result in the loss of income or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Furthermore, any shortages of funds or other disruptions to banking experienced by the Group's banks from time to time could also have a material adverse effect on the Group's ability to complete its planned developments or obtain finance required for its planned growth and thus have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

Social Risks

Crime and corruption could disrupt the Group's ability to conduct its business.

The political and economic changes in Russia since the early 1990s have led, amongst other things, to reduced policing of society and increased lawlessness. In September 2006, Mr. Kozlov, the Deputy Chairman of the CBR, was assassinated in what was allegedly a contract killing tied to the deceased's enforcement actions against corrupt Russian banking organisations. In October 2006, a journalist, Anna Politkovskaya, was assassinated in Moscow. Certain commentators have linked this murder with Ms. Politkovskaya's articles criticising the Russian and Chechen governments, as well as her human rights activities. In November 2009, a lawyer at the Moscow law firm Firestone Duncan, Sergey Magnitsky died in Butyrskaya prison in Moscow after nearly a year of imprisonment awaiting trial. He was arrested in

November 2008 after he testified against Russian Interior Ministry officials involved in a tax raid on Hermitage Capital Management offices, whose interests Mr. Magnitsky represented. Mr. Magnitsky was charged with colluding with two subsidiaries of Hermitage Capital Management to evade taxes. Organised crime, particularly property crimes in large metropolitan centres, has reportedly increased significantly since the dissolution of the Soviet Union. In addition, the Russian and international media have reported high levels of corruption in Russia. Press reports have also described instances in which Government officials have engaged in selective investigations and prosecutions to further the interest of the Government and individual officials or business groups. Although the Group adheres to a business ethics policy and internal compliance procedures to counteract the effects of crime and corruption, illegal activities, demands of corrupt officials, allegations that the Group or the Group's management have been involved in corruption or illegal activities or biased articles and negative publicity could materially and adversely affect the Group's ability to conduct its business in Russia and the value of the GDRs.

Social instability could lead to labour and social unrest, renewed centralised authority or increased nationalism.

The failure of the Government and of many private enterprises to pay full salaries regularly, and the failure of salaries and benefits generally to keep pace with the increasing cost of living, could lead to labour and social unrest, increased support for centralised authority and a rise in nationalism. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to a strike that included blockading major railroads. In 2005, Russian pensioners organised street protests against Government proposals to monetise in-kind benefits. These protests periodically blocked highways and streets in major Russian cities. In June 2009, workers of Pikalevsky Alumina Refinery Plant blocked the highway demanding payment of overdue wages. Such labour and social unrest could disrupt normal business operations, which also could materially and adversely affect the Group's business, financial condition, results of operations and the value of the GDRs.

Legislative and Legal Risks

The immaturity of and weaknesses relating to the Russian legal system, processes, practices and legislation create an uncertain environment for investment and business activity and may adversely affect the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Risks associated with the legal systems of Russia include, to varying degrees, inconsistencies between and among laws, presidential decrees, edicts and governmental and ministerial orders and resolutions; conflicting local, regional, and federal rules and regulations; the lack of judicial or administrative guidance regarding the interpretation of the applicable rules; the untested nature of the independence of the judiciary and its immunity from political, social and commercial influences; the relative inexperience of jurists, judges and courts in interpreting recently enacted legislation and complex commercial arrangements; a high degree of unchecked discretion on the part of governmental authorities; alleged corruption within the judiciary and governmental authorities; substantial gaps in the regulatory structure due to delays in or absence of implementing regulations; bankruptcy procedures that are not well-developed and are subject to abuse; and a lack of binding judicial precedent. All of these weaknesses affect the Group's ability to protect and enforce its legal rights, including rights under contracts, and to defend against claims by others.

The relatively recent enactment of many laws, the lack of consensus about the scope, content and pace of political and economic reform and the rapid evolution of legal systems in ways that may not always coincide with market developments have resulted in legal ambiguities, inconsistencies and anomalies and, in certain cases, the enactment of laws without a clear constitutional or legislative basis. Legal and bureaucratic obstacles and corruption exist to varying degrees in each of the regions in which the Group operates, and these factors are likely to hinder the Group's further development. These characteristics give rise to investment risks that do not exist in countries with more developed legal systems.

Additionally, the independence of the judicial system and the prosecutor general's office and their immunity from economic and political influences in Russia are subject to doubt. The court system is understaffed and under-funded. Judges and courts remain inexperienced in certain areas of business and corporate law, such as international financial transactions. Russia is a civil law jurisdiction where judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. Additionally, the press has often reported that court claims and governmental

prosecutions are sometimes influenced by or used in furtherance of political aims or private interests. The Group may be subject to such claims and may not be able to receive a fair hearing. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

These uncertainties also extend to property rights. During its transition from a centrally planned economy to a market economy, Russia has enacted laws to protect private property against expropriation and nationalisation. However, due to a lack of experience in enforcing these provisions and to political pressure, Russian courts might not enforce these protections in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Group's entities, any of the Group's entities' assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on the Group's business, financial condition, results of operations and the value of the GDRs.

It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered or to obtain certain approvals, consents or registrations and to comply with the requirements contained in such approvals, consents, registrations and other regulations.

Following the dissolution of the Soviet Union, land reforms commenced in Russia and real estate legislation changed continuously. Over the following years more than 100 federal laws, presidential decrees and governmental resolutions were enacted or issued. Almost all Russian regions passed their own real estate legislation. In many instances, there was no certainty regarding which municipal, regional or federal Government body had power to sell, lease or otherwise dispose of land.

In 2001, the Civil Code was amended and a new code and a number of other federal laws regulating land use and ownership were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and its difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. Moreover, in order to use and develop land and other real estate in Russia, approvals or consents of or registrations with various federal, regional and local governmental authorities are required. Further, it is not always clear which governmental body has the right to lease land in relation to certain land plots; construction approval procedures are intricate and such approvals may be contested or totally cancelled; and building and environmental regulations often contain requirements that are difficult to fully comply with in practice. Failure to obtain the required approvals, consents or registrations and to comply with the requirements contained in such approvals, consents, registrations and other regulations may lead to severe consequences for landowners and other real estate owners and lessees. These failures and other uncertainties mentioned above may have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

The law relating to Russian corporate governance and control is subject to inconsistent application and may be difficult to enforce.

Most of the Company's operating subsidiaries are organised and existing in Russia and hold most of their assets in Russia. Accordingly, corporate actions by such companies, and the rights of the Company as their controlling shareholder, are subject to mandatory rules of Russian corporate law. Corporate governance standards in Russia and certain other jurisdictions where the Group has subsidiaries are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and informational disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights.

In addition, as with other areas of Russian law, the Russian courts' interpretation of corporate law concepts are at times subject to inconsistent interpretation and application by the courts. See "*—The immaturity of and weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia*". For example, there are conflicting interpretations as to when shareholder approval of a transaction is required as a "major transaction" or, alternatively, when the transaction may be validly authorised by a decision of the company's appointed officers. Accordingly, the Group may be subject to an increased burden in seeking to comply with all

reasonably possible interpretations of such requirements or may find itself in formal non-compliance with such requirements. The uncertainties mentioned above may have a material adverse effect on the Group's business, financial condition, results of operation, prospects and the value of the GDRs.

Shareholder liability under Russian corporate law could cause the Company to become liable for the obligations of its subsidiaries.

Russian law generally provides that shareholders in a Russian joint stock company or participants in a limited liability company are not liable for the obligations of such a company and bear only the risk of loss of their investment. This may not be the case, however, when a company is capable of determining decisions made by another company. The company capable of determining such decisions is called the effective parent. The company whose decisions are capable of being so determined is called the effective subsidiary. The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out business decisions if:

- the decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives binding directions to the effective subsidiary.

Moreover, an effective parent is secondarily liable for an effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the effective parent. In these instances, the other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that causes the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. The Company could be found to be the effective parent of its subsidiaries, in which case it could become liable for their debts, which could have a material adverse effect on its business, results of operations, financial condition, prospects and the value of the GDRs.

Unlawful, selective or arbitrary Government action may have an adverse effect on the Group's business, results of operations, financial conditions, prospects and the value of the GDRs.

Government authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Moreover, Government authorities also have the power in certain circumstances, by regulation or Government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to Government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, the Group's competitors may receive preferential treatment from the Government, potentially giving them a competitive advantage. Although unlawful, selective or arbitrary Government action may be challenged in court, such action, if directed at the Group or its shareholders, could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. If such property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including:

- the lack of state budgetary resources;
- the apparent lack of political will to enforce legislation to protect property against expropriation and nationalisation;
- the lack of an independent judiciary and sufficient mechanisms to enforce judgements; and
- reportedly widespread corruption among Government officials.

The concept of property rights is not well developed in Russia and there is little experience in enforcing legislation enacted to protect private property against expropriation or nationalisation. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Government decides to expropriate or nationalise some or all of the Group's assets. Expropriation or nationalisation of all or a portion of the Group's business, especially without fair compensation, would have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

Restrictive currency regulations may adversely affect the Group's business, financial conditions, results of operations, prospects and the value of the GDRs.

Notwithstanding significant recent liberalisation of the Russian currency control regime and the abolishment of certain restrictions in January 2007, the Federal Law No. 173-FZ "On Currency Regulation and Currency Control" of 10 December 2003, as amended, (the "**Currency Law**") and current regulations still contain a number of limitations on foreign currency operations. In particular, when opening, closing, or changing details of bank accounts located outside of Russia, Russian companies must notify the Russian tax authorities within one month. Additionally, certain currency control restrictions were not repealed as a result of this liberalisation, including a general prohibition on foreign currency operations between Russian companies (with certain limited exceptions), and, subject to certain exemptions, the requirement to repatriate export-related earnings to Russia. Restrictions on the Group's ability to conduct some of these transactions could increase the Group's costs, or prevent the Group from continuing necessary business operations, or successfully implementing its growth strategy. As a result of the current state of the banking sector, some delays may occur in the transfer of funds within Russia and the remittance of funds out of Russia. Any delay or other difficulty in transferring or remitting funds could limit the Group's ability to meet payment and debt obligations as they become due, which could result in the acceleration of debt obligations and cross-default, and in turn have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the GDRs.

Risks Relating to Taxation

Taxation in Russia

The Group's business has a significant exposure to taxation in Russia.

The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in the GDRs. See also "*Taxation—Russian Tax Considerations*." In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, profit tax, value added tax, property taxes, excise duties, payroll-related taxes and other taxes.

Over the past decade, the Government has reformed the tax system, which has resulted in some improvement in the tax climate. The cornerstone of this reform was the introduction of the Tax Code of Russia (the "**Russian Tax Code**"); which included a successive reduction of the general corporate profits tax rate from 35% to 20%. Personal income tax has been reduced substantially for individuals who are tax residents in Russia; and the general tax rate for such individuals is currently 13%. The general rate of VAT has been reduced to 18%, and certain minor taxes have been abolished.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. In some instances, although it may be viewed as contrary to Russian constitutional law, the Russian tax authorities have applied certain new taxes retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times.

Despite the Government's steps to reduce the overall tax burden, Russia's largely ineffective tax collection system and continuing budgetary funding requirements may increase the likelihood that Russia will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on Group' business, financial condition or results of operations. Additionally, tax may be utilised as a tool for significant state intervention in certain key industries, and that may be repeated in the future.

Changes to the Russian Tax Code were introduced recently with respect to the interest deduction on foreign currency loans (i.e., loans provided in any currency other than the Russian rouble) for a two year period from 1 January 2011. The recent amendments provide that a new threshold of 0.8 times the Central Bank of Russia refinancing rate will be applicable to foreign currency loans instead of 15% generally

applicable before 1 January 2011. Although the interest rate based on comparison with the average interest rate on loans granted on comparable terms in the same quarter remains applicable. The law is silent on what rules will apply after the year 2012.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance over form" approach. While certain reductions in the rates, such as for profits tax, have been effected, it is expected that Russian tax legislation will become more sophisticated and introduce additional revenue-raising measures. Although it is unclear how these provisions will operate, the introduction of these provisions may affect Group's overall tax efficiency and may result in significant additional taxes becoming payable. Although Group will continue to seek to minimise such exposures through tax planning, it cannot offer prospective investors any assurances that the effective tax burden will not increase while the GDRs are outstanding. Additional tax exposure could adversely affect Group' business, financial condition or results of operations.

In addition, following the replacement of the Unified Social Tax with mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund from 1 January 2010, the authorities responsible for these funds are empowered to carry out audits in relation to payments of contributions to the respective funds, resulting in increase of the tax administration burden of the Group.

Russian subsidiaries of the Company are subject to tax audits by Russian tax authorities which may result in additional tax liabilities for the Group.

On 14 July 2005, the Constitutional Court of Russia (the "**Constitutional Court**") issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax audit. Amendments to the Russian Tax Code, effective 1 January 2007, provide for the extension of the three-year statute of limitations if the taxpayer actively obstructed the conduct of a tax audit, which created insurmountable barriers to the conduct of the tax audit. Because none of the relevant terms is defined in the Russian Tax Code, tax authorities may have broad discretion to argue that a taxpayer has "obstructed," "hindered," "actively obstructed" or "created insurmountable barriers" in respect of a tax audit and to ultimately seek a review and possibly apply penalties beyond the three year term, and there is no guarantee that the tax authorities will not review the compliance of Group with applicable tax law beyond the three-year limitation period.

Tax audits may result in additional costs to the Group if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Such audits may also impose additional burdens on the Group by diverting the attention of management resources. The outcome of tax audits and disputes may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Generally, tax returns in Russia remain open and subject to tax audit by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, during the eligible three-year period by a higher-level tax authority. In particular, a repeated tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation/ liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable. However, on 17 March 2009, the Constitutional Court issued a decision that prohibits the Russian tax authorities from issuing decisions in the course of subsequent tax audits for the same tax period as an initial audit if a court decision given in respect of the tax dispute between the relevant taxpayer and the relevant tax authority and covering taxation matters raised during the initial tax audit has not been revised or discharged. On 11 November 2009, the Constitutional Court issued a second decision that confirms this position. Currently, it is unclear how these decisions will be applied and followed in practice by the Russian tax authorities. In particular, the Supreme Arbitrazh Court (the supreme state commercial court in Russia) is currently considering three cases, resolutions on which may limit the application of the decisions of the Constitutional Court discussed above.

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the conduct of a tax audit, which created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined in the Russian Tax Code, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered", "actively counteracted" or "created insurmountable obstacles" in respect of a tax audit and to ultimately seek review and possibly apply penalties beyond the three year term, and there is no guarantee that the tax authorities will not review Group's compliance with applicable tax law beyond the three-year limitation period. Any such review could, if it concluded that Group had significant unpaid taxes relating to such periods, have a material adverse effect on Group's business, financial condition or results of operations.

In its decision of 25 July 2001, the Constitutional Court introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, this concept has been used by the tax authorities to deny, for instance, the taxpayer's right to rely on the literal interpretation of the tax legislation. The tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

The Group may be deemed to have received unjustified tax benefits.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of Russia issued Resolution No. 53 formulating the concept of an "unjustified tax benefit", which is described in the Resolution by reference to specific circumstances, such as absence of business purpose or transactions where the legal form does not match the economic substance, and which could lead to the disallowance of tax benefits resulting from the transaction and calculation of the tax obligations based on the real economic substance of the transaction. While the tax authorities and courts have to date applied this concept in a number of cases, there is some controversy over its interpretation and it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Resolution might have been to combat abuse of tax laws, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense. Furthermore, the Resolution of the Plenum of the Supreme Court No. 64 of 28 December 2006 "About practice of the application of the responsibility for the tax crimes" is indicative of the trend to broaden the application of the criminal responsibility for tax violations.

The Company may be exposed to taxation in Russia if the Company is treated as having a Russian permanent establishment.

According to the Russian tax legislation, a foreign legal entity may create a permanent establishment in Russia if it carries out commercial activities in Russia on a regular basis through a fixed place of business. In particular, the Russian tax legislation contains three basic criteria for recognition of a permanent establishment, and once the foreign legal entity meets those, it may be considered as having a permanent establishment in Russia. Such criteria are:

- Operations are performed on a regular basis.
- Commercial nature of operations.
- Operations are performed through a fixed place of business in Russia, such as a branch, representative office, division or bureau, an office, agency or any other separate subdivision or other place of activity (created for 30 or more days cumulatively in a calendar year).

Under the Russian Tax Code, a foreign company may also create a permanent establishment in Russia if it acts through a person (either a legal entity or an individual) (a dependent agent), which represents the foreign company based on a contractual relationship, acts on behalf of the foreign entity and has, and habitually exercises in Russia an authority to conclude contracts or negotiate essential conditions of that contracts (e.g. pricing, timing and terms of settlement, etc.) under the name of the foreign company thereby creating binding legal consequences for the foreign company.

The Protocol to the Treaty which was approved on 27 September 2010 but not yet ratified will also broaden the definition of a permanent establishment to include services rendered by individual agents permanently based in Russia. In particular, the activity of an individual (or several individuals) may create permanent establishment for the Company if the Company rendered services (a) through the individual present in Russia for more than 183 days in aggregate in any 12 month period and more than 50% of the gross revenues attributable to business activities of the Company were derived through that individual; (b) the Company rendered services in Russia for more than 183 days in aggregate in any 12 month period and the

services were performed for the same project or connected projects through one or more individuals in Russia.

If the Company were to be treated as having a permanent establishment in Russia, it would be subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity. Only the amount of the income of a foreign entity that is attributable to its permanent establishment should be subject to taxation in Russia.

The introduction of the tax residency concept in Russia may have a material adverse effect on the Group.

Russian tax legislation in effect does not contain a concept of corporate tax residency. The basic criterion to determine the status of a legal entity for tax purposes is (Russian) state registration. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction to the domestic tax law of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, and their potential interpretation by the tax authorities and the possible impact on the Issuer or foreign companies of the Group.

It is conceivable, therefore, that, if enacted, these amendments may have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

The Group may be subject to vaguely drafted Russian transfer pricing rules and the imposition of additional tax liabilities with respect to all controlled transactions.

Russian transfer-pricing legislation which became effective in Russia on 1 January 1999, may affect Group's financial and tax position. This legislation allows the tax authorities to make transfer-pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e. if the price in respect of such transactions differs from the prices on similar transactions conducted within a short period of time by more than 20%). Special transfer-pricing provisions are established for operations with securities and derivatives.

Russian transfer-pricing rules are vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. There has been very little guidance (although some court practice is available) as to how these rules should be applied. The Russian State Duma is currently considering a draft law that would substantially change the Russian transfer pricing rules; it was adopted in the first reading on 19 February 2010. It is expected that most of the provisions of this draft law will be enacted starting from 1 January 2011. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. At this point it is impossible to predict whether this draft law will be enacted and what effect on taxpayers it will have, including Group. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on Group's business, financial condition or results of operations.

Additionally, in the event that a transfer-pricing adjustment is assessed by Russian tax authorities, the Russian transfer-pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions are not consolidated for tax purposes. Therefore, each of the Russian subsidiaries of Group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity within the Group. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction of consolidated tax reporting to enable the consolidation of the financial results of Russian taxpayers which are part of one group for corporate income tax purposes. There is a draft law prepared by the Ministry of Finance to amend the Russian Tax Code and establish rules on consolidated tax reporting as of 1 January 2011. At this stage, it is impossible to predict whether, when or how any consolidated tax reporting principles will be enacted.

Imposition of additional tax liabilities as a result of application of the Russian transfer pricing legislation to transactions carried out by the Russian subsidiaries of the Group may have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

The Company may be subject to increased effective rates of tax on dividends due to lack of clarity of Russian tax law in respect to beneficial ownership

Starting from 2006, the Russian Ministry of Finance has issued a number of clarifications with respect to the concept of "beneficial ownership" of income applied in international tax treaties. Although the clarifications up to the date of the Prospectus have been of limited use (such clarifications were issued with respect to American Depositary Receipts, and the clarifications set out in the letters of the Ministry of Finance do not include legal rules or other rules), they demonstrate the attempt of the Russian tax authorities to investigate beneficial ownership of income in international financial transactions and holding structures. The President of Russia, in his budget message of 25 May 2009 expressed the aim of introducing legal mechanisms to combat the use of international double tax treaties for the purpose of minimising taxes where the ultimate beneficiaries are not residents of the jurisdiction which is a party to the relevant double tax treaty. Furthermore, a draft law is under discussion in the Government that proposes to amend the Russian Tax Code by providing for a general approach to treatment of beneficial ownership when applying international tax treaties. This draft law itself does not provide an additional toolkit for investigation of beneficial ownership in addition to international tax treaties concluded by Russia and the relevant international regulatory framework; however, it may be considered as additional guidance for local tax inspectorates to address the issue. It cannot be predicted if this draft law will be enacted or how it will be applied in practice. For details please See "*Taxation—Taxation of Dividends paid by the Russian subsidiaries to the Company*".

The Group may be subject to ambiguity of new customs legislation.

New customs legislation, which became effective in Russia in 2010, may affect Group's overseas economic activity. In 2010, the customs union between Russia, Belarus and Kazakhstan came into force. The customs code of the customs union came into force on 1 July 2010. Currently, procedures and practice relating to the application of certain provisions of the new customs legislation are uncertain. A number of draft legislative acts regulating cross-border operations are currently being finalised and have not come into force. In light of this, Russian importers may encounter certain obstacles (which may result in additional customs liabilities) as a result of the ambiguity of new customs legislation.

The Group may be subject to imposition of additional customs liabilities with respect to foreign economic activity.

The Group's business includes import and export operations. The Russian customs authorities exercise tight control over the determination and declaration of the customs value of imported goods using different methods. However, these methods may not be fully in accordance with legislative provisions (e.g. establishing minimum prices for imported goods). In practice if the declared customs value is lower than the established reference price, the customs authorities would likely adjust (increase) the declared value. It should be noted that reference prices used by customs authorities are not publicly available. In practice, local customs authorities may informally inform an importer or a customs broker that the declared value is less than the reference price. Supply of goods between related parties may also be subject to tight control by customs authorities. Although the Group still has the right to appeal the decision of the customs authority on increase of the customs value in court, there can be no assurance that the Group would be successful in overturning the decision of the customs authorities. If customs authorities were to increase the customs value relating to particular goods, it may result in additional customs liabilities for the Group.

The Group may be subject to the imposition of additional customs liabilities with respect to the acquisition of illegally imported goods.

The Group's business includes the acquisition of goods of foreign origin from Russian importers. In practice, Russian customs authorities may check whether such goods acquired by the Group from Russian importers were imported in accordance with customs rules in the course of a post-clearance customs audit. If the authorities determine that goods were imported in violation of the customs rules, the respective company of the Group may be subject to additional customs liabilities, including additional customs payments and fines.

Taxation in Cyprus

The Company may be subject to Defence Tax in Cyprus.

Special Contribution for the Defence of the Republic of Cyprus ("**Defence Tax**") at a rate of 15% is payable by a Cypriot company on deemed dividend distributions to the extent that its shareholders are Cypriot tax residents. A Cypriot company which does not distribute at least 70% of its after tax profits within two years of the end of the year in which the profits arose, is deemed to have distributed this amount as a dividend two years after that year end. The amount of this deemed dividend distribution (subject to Defence Tax) is reduced by any actual dividend paid out of the profits of the relevant year at any time up to the date of the deemed distribution and the resulting balance of profits will be subject to Defence Tax of 15% to the extent of the proportion of shares held in the company at that time by Cyprus tax residents. The profits to be taken into account in determining the deemed dividend do not include fair value adjustments to movable or immovable property (if any).

The Defence Tax payable as a result of a deemed dividend distribution is paid in the first instance by the company which may recover such payment from its Cypriot shareholders by deducting the amount from an actual dividend paid to such shareholders from the relevant profits. To the extent that the company is unable to recover such amount due to a change in shareholders or no actual dividend is ever paid out of the relevant profits, the company will suffer the cost of this Defence Tax. Imposition of such a Tax could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs where the Tax cannot be recovered from shareholders as described above.

In the case where a person who is not tax resident in Cyprus receives a dividend from a Cypriot tax resident company and that dividend is paid out of profits which at any stage gave rise to a liability to Defence Tax in accordance with the deemed dividend distribution provisions described above, then the Defence Tax paid in respect of the deemed distribution which relates to the dividends received by such person is refundable upon application to the Cypriot tax authorities by the recipient of the dividend.

Interest expenses may not be deductible by the Company.

Interest expenses are tax deductible if they are incurred wholly and exclusively for the production of income. However no deduction shall be allowed for interest applicable or deemed to be applicable to the cost of purchasing assets not used in the business. This provision applies until seven years from the date of purchase of the relevant asset.

In accordance with an internal Circular published by the Cyprus tax authorities, restriction of interest as non-deductible should occur where the interest relates to funds borrowed that were directly used to acquire non-business assets and partial restriction of interest as non-deductible should occur where the interest relates to funds borrowed that were not used directly to acquire business assets.

In this respect, investment in a subsidiary is considered a non-business asset and any interest expense that relates (or is deemed to relate) to the acquisition/financing of such assets is not considered tax deductible.

In accordance with the internal Circular published by the Cyprus tax authorities, when calculating interest deemed to be applicable to the cost of purchasing assets not used in the business, non-business assets acquired using funds from a new issue of shares are disregarded as long as the acquisition is made within six months from the date of issue of the new shares. Such assets may however be subsequently taken into account if there is a reduction of capital within seven years of acquisition of the asset. Furthermore, the Circular describes the circumstances under which funds borrowed for the purpose of group financing activities is considered directly used to acquire business assets.

The Company may be deemed to be tax resident outside of Cyprus.

According to the provisions of the Cyprus Income Tax Law a company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised in Cyprus. The concept of "management and control" is not defined in the Cypriot tax legislation however it is considered that a company is managed and controlled in Cyprus through the decision making power of its board of directors being exercised in Cyprus.

Where the majority of the board of directors of the Company comprises tax residents or citizens of Russia, this may increase the risk that the Company is not managed and controlled in Cyprus and so not tax resident in Cyprus. This may result in the Company not being subject to the Cypriot tax regime other than in respect of Cyprus sourced income and being subject to the tax regime of the country in which it is tax

resident. Further, the Company would not be eligible for benefits under the tax treaties entered into between Cyprus and other countries.

A company incorporated in Cyprus cannot currently be considered by the Russian tax authorities to be tax resident in Russia. However should Russian domestic law be amended in this respect and a Cypriot tax resident company is also considered a tax resident of Russia, the tax treaty in force between Cyprus and Russia (the "**Treaty**") provides that such a company shall be deemed to be a tax resident of the state in which the place of effective management of the company is situated. A protocol to the Treaty was signed in October 2010 and is awaiting the ratification procedures of both states. This protocol provides that the process of determination of effective management in such a case will be achieved through the two states endeavouring to determine the place of effective management by mutual agreement having regard to all relevant factors.

Where the majority of the board of directors of the Company comprises tax residents or citizens of Russia, this may pose a risk that the company, even if managed and controlled in Cyprus and so tax resident in Cyprus, has a permanent establishment in Russia or elsewhere. Such a permanent establishment could be subject to taxation of the jurisdiction of the permanent establishment on the profits allocable to the permanent establishment. See also *"Risks Relating to Taxation in Russia—The Company may be exposed to taxation in Russia if the Company is treated as having a Russian permanent establishment"*.

Where the Company is tax resident outside of Cyprus or has a permanent establishment in Russia or elsewhere, this could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the value of the GDRs.

Risks Relating to the GDRs and the Trading Market

Voting rights with respect to the Ordinary Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Cypriot law.

GDR holders have no direct voting rights with respect to the Ordinary Shares represented by the GDRs. GDR holders are able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the deposit agreement to be entered into on or about 10 February 2011 between the Company and the Depositary (the "**Deposit Agreement**") and relevant requirements of Cypriot law. See "*Terms and Conditions of the Global Depositary Receipts*". Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders.

Holders of Ordinary Shares receive notice directly from the Company and are able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, do not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company provides notice to the Depositary. The Depositary then, as soon as practicable, at the Company's expense, distributes to GDR holders notices of meetings, copies of voting materials (if and as received by the Depositary from the Company) and a statement as to the manner in which GDR holders may give instructions.

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of Ordinary Shares, and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. If the Depositary does not receive timely voting instructions, the Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person appointed by the Company to vote such Ordinary Shares, provided that such discretionary proxy will not be given if the Company does not wish such proxy to be given or if such matter materially and adversely affects the rights of holders of Ordinary Shares. If timely voting instructions are not received and no discretionary proxy is given in respect of such Ordinary Shares, or if the Depositary determines that it is not permissible under Cyprus law or it is reasonably impracticable to vote or cause to be voted the Ordinary Shares, such Ordinary Shares will not be voted.

Sales of additional GDRs or Ordinary Shares may result in a decline in the price of the GDRs.

Sales, or the possibility of sales, by the Company or the Selling Shareholders (see "*Principal and Selling Shareholders*") of a substantial number of GDRs or Ordinary Shares in the public markets could have an adverse effect on the value of the GDRs as well as the Company's ability to obtain further capital through an offering of equity securities. Each of the Company, the Selling Shareholders and certain beneficial

shareholders has agreed that, until 180 days after the Closing Date, neither it nor any person acting on its behalf or under its direction will, without the prior written consent of the Joint Bookrunners, except in limited circumstances, for the Offering, offer, sell, contract to sell, pledge or otherwise dispose of, the Ordinary Shares or the GDRs or, in the case of the Company, issue new Ordinary Shares or GDRs. See *"Subscription and Sale—Lock-up Arrangements"*. The sale of a substantial number of additional GDRs or Ordinary Shares, in particular by the Selling Shareholders, or the issuance of new shares by the Company, or the possibility that these sales or issuances may occur, may result in a decline in the price of the GDRs. Moreover, the Company may in the future issue new Ordinary Shares or GDRs that have rights, preferences or privileges senior to those of the Ordinary Shares which could negatively affect the price of the GDRs. As a result, investors who purchase GDRs could lose all or part of their investment in such GDRs.

The Company is not subject to the same takeover protection as a company incorporated in the United Kingdom.

Since the Company has its registered office in Cyprus and GDRs representing its Ordinary Shares are proposed to be listed on a regulated market in the United Kingdom, the takeover protection regime applicable to the Company is more limited than that applicable to public companies incorporated in the United Kingdom. Any offer for GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers (the City Code) in respect only of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law will apply to such an offer in relation to information to employees of the target company and substantive company law matters, such as whether such an offer would trigger a mandatory offer to all holders of GDRs. The requirements of Cyprus law regarding the thresholds for making a mandatory offer are set out in "*Description of Share Capital and Applicable Cypriot Law—Cypriot Law—General*". As at the date of this Prospectus, it is unclear whether the Cyprus Takeover Law provisions for a mandatory offer apply to GDRs. Consequently, a prospective bidder acquiring GDRs may gain control of the Company in circumstances in which no requirement for a mandatory offer is triggered in respect of the Company under the takeover protection regime applicable to it. As a result, some holders of GDRs may not be given the opportunity to receive treatment equal to that which may be received, in case of an offer made by a potential bidder with a view to gaining control of the Company, by certain other holders of GDRs or, as the case may be, Ordinary Shares at the relevant time.

Holders of GDRs may not be able to exercise their pre-emptive rights in relation to future issues of Ordinary Shares.

In order to raise funding in the future, the Company may issue additional Ordinary Shares, including in the form of additional GDRs. Generally, existing holders of ordinary shares in Cyprus public companies are in certain circumstances entitled to pre-emptive rights on the issue of new ordinary shares in that company as described in "*Description of Share Capital and Applicable Cypriot Law*", though, under certain circumstances, such pre-emptive rights can be disapplied by the majorities described in "Description of Share Capital and Applicable Cypriot Law". Holders of global depositary receipts in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights for ordinary shares represented by global depositary receipts unless the applicable securities law requirements in such jurisdiction (including, in the United States, in some circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. The Company may not adhere to such requirements and an exemption may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on future issuances of Ordinary Shares, and, as a result, their percentage ownership interest in the Company would be reduced.

The price of the GDRs may be highly volatile.

Trading of global depositary receipts on the London Stock Exchange has historically been subject to high volatility in terms of price and volume. The liquidity of any market for the GDRs depends on the number of holders of the GDRs, the market for similar securities and other factors, including general economic conditions and the Group's financial condition, performance and prospectus, as well as the recommendations of securities analysts. As a result, the Group cannot be certain that an active trading market for the GDRs will develop or that it will be maintained. If an active trading market for the GDRs does not develop, investors may not be able to sell the GDRs they purchased at or above the price at which they acquired them or at all. As a result, investors could lose all or part of their investment in the GDRs.

The Ordinary Shares underlying the GDRs are not listed and are illiquid and will remain illiquid.

Unlike the shares underlying most of the other global depositary receipts traded on the London Stock Exchange, the Ordinary Shares are neither listed nor traded on any stock exchange, and the Company does not intend to apply for the listing or admission to trading of its Ordinary Shares on any stock exchange. As a result, a withdrawal of ordinary shares by a holder of GDRs, whether by election or due to certain events described under "*Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement*", will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those securities may be discounted as a result of such withdrawal.

Investors in the Offering will experience immediate and substantial dilution in net tangible book value per Ordinary Share.

The price at which the Ordinary Shares (in the form of GDRs) are being sold in the Offering is substantially higher than the Group's net tangible book value per Ordinary Share (i.e. the Group's consolidated total assets less consolidated total liabilities divided by the number of outstanding Ordinary Shares). Therefore, purchasers of the Ordinary Shares (in the form of GDRs) will incur immediate and substantial dilution in net tangible book value per Ordinary Share.

THE GLOBAL OFFERING

The Company	HMS Hydraulic Machines & Systems Group plc, a company organised and existing under the laws of Cyprus.
The Offering	The Offering consists of an offering by the Company of GDRs and by the Selling Shareholders of 43,640,000 GDRs, with each GDR representing an interest in one Ordinary Share. The GDRs are being offered outside the United States in off-shore transactions in reliance on Regulation S, outside Russia and within the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.
Joint Bookrunners	J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc and Renaissance Securities (Cyprus) Limited.
Offer Price	US$ 8.25 per GDR.
Selling Shareholders	HMS Technologies and Skye Commercial Corp. See *"Principal and Selling Shareholders"*.
Share Capital	Immediately prior to the Offering, the Company's issued share capital consisted of 102,600,000 Ordinary Shares, which are fully paid. The Company's authorised share capital consists of 120,705,882 Ordinary Shares. Immediately following the Offering the Company's authorised and issued share capital will consist of 120,705,882 issued Ordinary Shares, assuming exercise of the Over-allotment Option in full. See "*Description of Share Capital and Applicable Cypriot Law*" and "*Principal and Selling Shareholders*".
Depositary	The Bank of New York Mellon.
GDRs	Each GDR will represent one Ordinary Share on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement. The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, and the Regulation S GDRs will be evidenced by the Master Regulation S GDR. See "*Summary of Provisions Relating to the Global Depositary Receipts While in Master Form*". Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See *"Terms and Conditions of the Global Depositary Receipts"*.
Over-Allotment Option	The Company and HMS Technologies have granted to the Joint Bookrunners an Over-Allotment Option to purchase up to 3,542,455 and 821,545 additional GDRs, respectively (representing in aggregate up to 4,364,000 additional GDRs) at the Offer Price. The Over-Allotment Option is exercisable on one or more occasions for the purpose of covering over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions on the date hereof, or from time to time, up to and including the 30th day following the announcement of the Offer Price upon written notice from the Joint Bookrunners to HMS Technologies and to the extent not previously exercised by the Joint Bookrunners may be terminated by the Joint Bookrunners at any time. See "*Subscription and Sale*".
Closing Date	The GDRs are expected to be issued, and payment for them made, on or about 14 February 2011.
Listing	Prior to the Offering, there has been no market for the GDRs. Application has been made to (i) the FSA in its capacity as competent authority under the FSMA for the admission of up to 200,000,000 GDRs, consisting of 43,640,000 GDRs to be issued on the Closing Date, up to 4,364,000 GDRs to be issued pursuant to the Over-Allotment Option and up to 151,996,000 GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with the

Depositary, to the official list maintained by the FSA, and (ii) the regulated market of London Stock Exchange for admission of the GDRs to trading under the symbol "HMSG". The Company expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about the date hereof.

The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.

Lock-Up . . . . Each of the Company, the Selling Shareholders and certain beneficial owners have agreed not to issue, offer, sell, pledge, dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any shares of the Company or securities convertible or exchangeable into or exercisable for shares of the Company or any securities or financial product whose value is determined directly or indirectly by reference to the price of the Ordinary Shares, including equity swaps, forward sales and options from the date hereof until 180 days after the Closing Date without the prior written consent of the Joint Bookrunners, except in limited circumstances. The foregoing undertaking shall not apply to the offer and sale of the GDRs in connection with the Offering. See *"Subscription and Sale"*.

Use of Proceeds . . . . The Company will receive gross proceeds of approximately US$ 120.1 million from the Offering (assuming no exercise of the Over-allotment Option) before underwriting commissions, fees and expenses incurred in connection with the Offering. The Company intends to use its share of the net proceeds of the Offering to repay or prepay, as the case may be, outstanding indebtedness of the Group in the amount of approximately RUR 3.3 billion, assuming no exercise of the Over-allotment Option, or RUR 4.0 billion of its outstanding indebtedness, assuming exercise of the Over-allotment Option in full and, to the extent that any net proceeds remain after payment of the foregoing, for general corporate purposes. See *"Use of Proceeds"*. The Group will not receive any proceeds from the sale by the Selling Shareholders of GDRs.

Taxation . . . . For a discussion of certain Cyprus, Russian, United States and United Kingdom tax consequences of purchasing and holding the GDRs, see *"Taxation"*.

Dividend Policy . . . . Holders of the GDRs will be entitled to receive amounts, if any, paid by the Company as dividends, subject to certain provisions. The Company expects to invest the majority of any profit for the year to fund its capital requirements. Subject to reviewing its capital position against its current and expected future capital requirements, the Company intends to return not less than 25% of its profit for the year, as set out in its consolidated IFRS financial statements, to its shareholders, in the form of dividends. From time to time, the Company may reconsider its dividend policy. The Board of Directors has not yet made any recommendation as to any payment of cash dividends in respect of the year ended 31 December 2010. Under the Joint Venture Agreement, HMS Technologies, the principal shareholder of the Company, and certain of the shareholders of HMS Technologies, have agreed to procure that the Company will not declare, make or pay dividends for the year ended 31 December 2011, unless those parties to the Joint Venture Agreement otherwise agree. See *"Dividend Policy"*, *"Principal and Selling Shareholders"*, *"Terms and Conditions of the Global Depositary Receipts"* and *"Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights Attaching to Ordinary Shares—Dividend and Distribution Rights"*.

Voting Rights . . . . Holders of Ordinary Shares are entitled to one vote. According to the Deposit Agreement, holders of GDRs are entitled to one vote per GDR at shareholders' meetings in accordance with the terms of the Deposit Agreement. See *"Terms and Conditions of the Global Depositary Receipts"*

and *"Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights Attaching to Ordinary Shares—Voting Rights"*.

Transfer Restrictions . . . . . . The GDRs will be subject to certain restrictions as described under *"Selling and Transfer Restrictions—Transfer Restrictions"*.

Settlement and Transfer . . . . The GDRs are being offered by the Joint Bookrunners subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

An application has been made to DTC to have the Rule 144A GDRs accepted into DTC's book-entry settlement system. Upon acceptance by DTC, a single Rule 144A Master GDR will be held in a book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. Application has been made to have the Regulation S Master GDR registered in the name of BNY Mellon (Cyprus) Nominees Limited, as nominee for The Bank of New York Mellon London Branch, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable. Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system.

In order to take delivery of the GDRs, investors must pay for them in same-day funds on or prior to the closing of the Offering and must have an appropriate securities account. See "*Settlement and Transfer*".

The security identification numbers of the GDRs offered hereby are as follows:

Rule 144A GDR ISIN:	US40425X1000
Rule 144A GDR Common Code:	057374497
Rule 144A GDR CUSIP:	40425X100
Rule 144A SEDOL:	B3PYLQ0
Regulation S GDR ISIN:	US40425X2099
Regulation S GDR Common Code:	057374152
Regulation S GDR CUSIP:	40425X209
Regulation S SEDOL:	B6553Q8
London Stock Exchange GDR trading symbol:	HMSG
CFI Code:	ESVTFA

USE OF PROCEEDS

The net proceeds that the Company will receive from the Offering (assuming no exercise of the Over-allotment Option) and after deduction of underwriting commissions, fees and expenses incurred in connection with the Offering of approximately US$ 5.5 million, will be approximately US$ 114.6 million. The Company will not receive any proceeds from the sale by the Selling Shareholders of GDRs.

The Group intends to use its share of such net proceeds of the Offering to repay or prepay, as the case may be, the outstanding indebtedness of the Group in the amount of approximately RUR 3.3 billion, assuming no exercise of the Over-allotment Option, or RUR 4.0 billion of its outstanding indebtedness, assuming exercise of the Over-allotment Option in full and, to the extent that any net proceeds remain after payment of the foregoing, for general corporate purposes.

The repayment and prepayment of existing indebtedness in connection with the Offering is intended, in part, to facilitate the incurrence of additional indebtedness in connection with potential selective acquisitions. The Group expects to fund future acquisitions primarily from debt. However, there can be no assurance that the Group will be able to borrow money to fund future acquisitions on favourable terms, or at all. See "*Risk Factors—Risks Relating to Financial and Accounting Matters and Internal Controls—The Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms*".

Previously, the Company had considered payment of bonuses to certain members of the Board of Directors of the Company, who are also its principal beneficial owners. However, all of the proposed recipients of such bonuses, in conjunction with the Company, have informed the Company of their intention to forego the proposed bonuses. Accordingly, the Company will not pay any of the proposed bonuses.

See "*Directors and Senior Management*" and "*Principal and Selling Shareholders*".

DIVIDEND POLICY

Pursuant to its Articles of Association, the Company may pay dividends out of its profits. To the extent that the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Company expects to pay dividends, if at all, in US Dollars. If dividends are not paid in US Dollars, except as otherwise described under "*Terms and Conditions of the Global Depositary Receipts—Conversion of Foreign Currency*", they will be converted into US Dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses and subject to fees charged by the Depositary. See "*Terms and Conditions of the Global Depositary Receipts*".

As a newly incorporated company, the Company has not previously declared any cash dividends on its share capital. For the years ended 31 December 2007, 2008 and 2009, certain Group subsidiaries paid dividends to holders of preference shares (but not to holders of Ordinary Shares) in the amount of RUR 221,690 thousand, RUR 291,726 thousand and RUR 160,009 thousand, respectively, as discussed in note 24 to the Annual Financial Statements.

The Company expects to invest the majority of any profit for the year to fund its capital requirements. Subject to reviewing its capital position against its current and expected future capital requirements, the Company intends to return not less than 25% of its profit for the year, as set out in its consolidated IFRS financial statements, to its shareholders in the form of dividends. From time to time, the Company may reconsider its dividend policy.

The Board of Directors has not yet made any recommendation as to any payment of cash dividends in respect of the year ended 31 December 2010. Under the Joint Venture Agreement, HMS Technologies, the principal shareholder of the Company, and certain of the shareholders of HMS Technologies, have agreed to procure that the Company will not declare, make or pay any dividends for the year ended 31 December 2011, unless those parties to the Joint Venture Agreement otherwise agree. See "*Principal and Selling Shareholders*".

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by such subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and, in the case of Russian subsidiaries, is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to Russian law. Nothing in this dividend policy should be taken to suggest that the Company will have any profit that would allow any dividends to be paid in relation to any historic or future period. See "*Risk Factors—Risks Relating to the Group's Business and Industry—The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries*"; "*Terms and Conditions of the Global Depositary Receipts"; "Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights Attaching to Ordinary Shares—Dividend and Distribution Rights*".

CAPITALISATION

The following table sets forth the Company's cash and cash equivalents, current borrowings and capitalisation as at 30 September 2010.

Prospective investors should read this table in conjunction with "*Selected Consolidated Financial and Operating Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the financial information starting on page F-1.

	As at 30 September 2010
	(unaudited)
	(RUR thousands)
Cash and cash equivalents	**1,899,182**
Short-term loans and borrowings	
Short-term borrowings	727,396
Current portion of long-term borrowings	211,634
Interest on short-term borrowings	2,692
Total short-term loans and borrowings	941,722
Long-term loans and borrowings	
Long-term borrowings	4,134,881
Total long-term loans and borrowings	**4,134,881**
Equity	
Currency translation reserve	(215,099)
Other reserves	122,841
Share capital	36,154
Share premium	210,862
Share capital to be issued	6,356
Retained earnings	2,454,819
Equity attributable to the Company's equity holders	**2,615,933**
Non-controlling interest	1,493,756
Total equity	**4,109,689**
Total capitalisation[1]	**8,244,570**

(1) Total capitalisation is the sum of non-current loans and borrowings and total equity.

Other than as a result of the matters set forth under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Current Trading and Recent Developments*", there has been no material change in the Group's capitalisation since 30 September 2010.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following selected consolidated financial information should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", and the Consolidated Financial Statements included in this Prospectus beginning on page F-1. For a description of the Consolidated Financial Statements, see "*Presentation of Financial and Other Information*".

The selected consolidated financial information set forth below shows certain of HMS Group's consolidated financial information as at and for the years ended 31 December 2007, 2008 and 2009 and as at and for the nine months ended 30 September 2009 and 2010. It has been derived from the Consolidated Financial Statements.

Selected Consolidated Comprehensive Income Statement Data

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
				(unaudited)	
			RUR thousands		
Revenue	13,399,356	14,046,245	14,772,269	9,775,040	16,157,721
Cost of sales	(10,807,001)	(10,772,689)	(11,164,202)	(7,097,756)	(12,299,622)
Gross profit	**2,592,355**	**3,273,556**	**3,608,067**	**2,677,284**	**3,858,099**
Distribution and transportation expenses	(399,625)	(517,493)	(482,576)	(367,554)	(398,381)
Excess of fair value of net assets acquired over the cost of acquisition	—	33,958	—	—	—
General and administrative expenses	(1,228,171)	(1,653,383)	(1,826,419)	(1,317,691)	(1,373,794)
Impairment of goodwill	—	—	(116,998)	(116,998)	—
Other operating expenses (net)	(100,772)	(190,187)	(97,636)	(90,493)	(53,950)
Operating profit	**863,787**	**946,451**	**1,084,438**	**784,548**	**2,031,974**
Finance income	35,053	26,450	58,424	49,780	51,093
Finance costs	(249,097)	(488,369)	(865,140)	(658,315)	(668,200)
Share of results of associates	18,129	49,444	17,193	22,920	9,271
Profit before income tax	**667,872**	**533,976**	**294,915**	**198,933**	**1,424,138**
Income tax expense	(176,690)	(204,415)	(211,765)	(137,332)	(329,131)
Profit for the period	**491,182**	**329,561**	**83,150**	**61,601**	**1,095,007**
Profit for the period allocated as follows:				—	—
Entitlement of participants in respect of their interest in the Company	(372,430)	(281,927)	—	—	—
Remainder, being entitlement of equity and minority holders	**118,752**	**47,634**	**83,150**	**61,601**	**1,095,007**
Other comprehensive income/(loss)					
Currency translation differences	—	(74,103)	(70,502)	(99,812)	(62,151)
Change in cumulative currency translation reserve attributable to participants of the Company	(14,460)	4,462	—	—	—
Revaluation gain	—	37,035	—	—	—
Currency translation differences of associates	—	(31,340)	1,283	(3,514)	1,690
Other comprehensive loss for the period	**(14,460)**	**(63,946)**	**(69,219)**	**(103,326)**	**(60,461)**
Total comprehensive income/(loss) for the period	**104,292**	**(16,312)**	**13,931**	**(41,725)**	**1,034,546**

Selected Consolidated Balance Sheet Data

	As at 31 December			As at 30 September
	2007	2008	2009	2010
				(unaudited)
		RUR thousands		
ASSETS				
Non-current assets:				
Property, plant and equipment	2,867,035	3,928,373	3,954,807	5,714,419
Other intangible assets	46,589	53,439	47,109	87,265
Goodwill	207,329	306,682	306,992	1,873,992
Investments in associates	416,860	449,848	507,293	501,453
Deferred income tax assets	57,711	41,000	53,989	93,403
Other long-term receivables	50,911	17,285	33,362	163,889
Total non-current assets	**3,646,435**	**4,796,627**	**4,903,552**	**8,434,421**
Current assets:				
Inventories	1,852,958	2,432,504	3,179,644	3,259,431
Trade and other receivables	3,869,094	3,027,888	2,875,755	11,006,986
Current income tax receivable	29,212	46,516	57,974	75,742
Prepaid expenses	23,024	26,422	35,104	44,730
Cash and cash equivalents	377,203	669,482	757,661	1,897,817
Restricted cash	890	620	905	3,768
Non-current assets held for sale	—	—	—	96,255
Total current assets	**6,152,381**	**6,203,432**	**6,907,043**	**16,384,729**
TOTAL ASSETS	**9,798,816**	**11,000,059**	**11,810,595**	**24,819,150**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	—	591,180	591,180	591,180
Currency translation reserve	—	(122,942)	(168,051)	(215,099)
Retained earnings	—	1,635,995	1,308,801	2,289,106
Other reserves	—	(26,834)	(26,834)	(26,834)
Equity attributable to the Company's equity holders	**—**	**2,077,398**	**1,705,096**	**2,638,353**
Minority interest	**567,953**	**648,114**	**669,631**	**1,493,756**
TOTAL EQUITY	**567,953**	**2,725,512**	**2,374,727**	**4,132,109**
LIABILITIES				
Net assets attributable to the Company's participants:				
Paid-in capital	218,080	—	—	—
Cumulative surplus of net assets	1,538,482	—	—	—
Total net assets attributable to the Company's participants	**1,756,562**	**—**	**—**	**—**
Non-current liabilities:				
Long-term borrowings	52,631	787	3,396,766	4,134,881
Finance lease liability	41,388	21,767	8,479	341
Deferred income tax liability	237,553	231,447	197,307	607,813
Pension liability	118,276	120,898	125,407	293,589
Long-term payables	14,938	—	—	49,234
Provisions for liabilities and charges	—	—	11,550	29,570
Total non-current liabilities	**464,786**	**374,899**	**3,739,509**	**5,115,428**
Current liabilities:				
Trade and other payable	3,748,655	3,238,859	3,255,490	12,934,083
Short-term borrowings	2,898,852	4,081,922	1,878,774	941,694
Unused vacation allowance	103,990	150,306	140,222	146,819
Provision for legal claim	3,608	21,918	35,753	40,480
Warranty provision	14,656	27,112	33,771	36,870
Finance lease liability	22,816	19,776	13,094	11,053
Pension liability	11,676	17,242	20,922	9,492
Current income tax payable	23,593	22,419	25,069	47,228
Other taxes payable	181,669	320,094	293,264	1,403,894
Total current liabilities	**7,009,515**	**7,899,648**	**5,696,359**	**15,571,613**
TOTAL LIABILITIES	**9,230,863**	**8,274,547**	**9,435,868**	**20,687,041**
TOTAL EQUITY AND LIABILITIES	**9,798,816**	**11,000,059**	**11,810,595**	**24,819,150**

Non-IFRS financial information

Adjusted EBITDA

The Group defines Adjusted EBITDA as operating profit/loss adjusted for other operating expenses (net), excess of fair value of net assets acquired over the cost of acquisition, impairment of goodwill, impairment of property, plant and equipment and intangible assets, depreciation and amortisation, provision for impairment of accounts receivable, provision for obsolete inventories, warranty provision, provision for VAT receivable, provision for legal claims, defined benefits scheme expense/(income) and unused vacation allowance.

The Group presents Adjusted EBITDA as a supplemental measure of the Group's operating performance since it believes that it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the integrated flow control solutions sector. Adjusted EBITDA has limitations as an analytical tool, and investors should not consider it in isolation as a substitute for analysis of the Group's operating results as reported under IFRS. See "*Presentation of Financial and Other Information—Non-IFRS Financial Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*". The Adjusted EBITDA information presented below has been prepared based on IFRS accounting records, which are the basis of HMS Group's audited or reviewed financial statements for the relevant period.

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
			RUR thousands		
Adjusted EBITDA	1,423,168	1,643,861	1,890,408	1,421,356	2,251,411

Reconciliation of Adjusted EBITDA to Operating Profit

Reconciliation of Adjusted EBITDA for the Group to operating profit is as follows for the periods indicated.

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
Adjusted EBITDA	**1,423,168**	**1,643,861**	**1,890,408**	**1,421,356**	**2,251,411**
Other operating expenses, net	(100,772)	(190,187)	(97,636)	(90,493)	(53,950)
Excess of fair value of net assets acquired over the cost of acquisition		33,958			
Impairment of goodwill			(116,998)	(116,998)	
Impairment of property, plant and equipment and intangible assets			(14,230)	(14,320)	
Depreciation and amortisation	(275,411)	(344,038)	(342,889)	(257,949)	(266,899)
Provision for impairment of accounts receivable	(69,373)	(32,694)	(69,559)	(57,934)	35,539
Provision for obsolete inventories	(48,383)	(56,993)	(95,949)	(93,887)	112,560
Warranty provision	(11,817)	(12,455)	(18,150)	(11,434)	(22,376)
Provision for VAT receivable	—	(826)	(29,918)	(29,991)	(4,727)
Provision for legal claims	(1,266)	(18,311)	(13,655)	(13,678)	8,891
Defined benefits scheme expense/(income)	(45,130)	(24,801)	(17,672)	13,335	(45,830)
Unused vacation (incl. in labour cost)	(7,229)	(51,063)	10,686	36,541	17,355
Operating profit	**863,787**	**946,451**	**1,084,438**	**784,548**	**2,031,974**

Operating Information

Backlog

The Group uses backlog as an estimate of the accumulation of uncompleted customer orders as at a specified date, after applying certain adjustments. The Group estimates the backlog as at 31 December 2009 under its 20 most significant contracts which it has examined individually and as at 30 September 2010

under its 27 most significant contracts which it has examined individually was approximately RUR 8.2 billion and approximately RUR 15.9 billion, respectively. In addition, HMS Group estimates that its backlog under the balance of its contracts was approximately RUR 1.3 billion and approximately RUR 4.7 billion as at 31 December 2009 and 30 September 2010, respectively. Accordingly, HMS Group estimates that its total backlog as at 31 December 2009 and 30 September 2010 was approximately RUR 9.5 billion and approximately RUR 20.6 billion, respectively. See "*Risk Factors—Risks Relating to Financial and Accounting Matters and Internal Controls—The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS*".

UNAUDITED CONDENSED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma condensed financial information for the year ended 31 December 2009 and the nine months ended 30 September 2010 is presented to illustrate the effect of the acquisition by the Group of 51.0% of the ordinary shares of GTNG in June 2010, as if it had occurred on 1 January 2009 (the "**Unaudited Pro Forma Financial Information**"). The Unaudited Pro Forma Financial Information presents the hypothetical results of the Group as if the acquisition occurred on 1 January 2009.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial results. It may not, therefore, give a true picture of the Group's financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future.

The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 and for the nine months ended 30 September 2010 presented below should be read in conjunction with (i) the Annual Financial Statements, (ii) the Company Interim Financial Statements, and (iii) the GTNG Financial Statements, in each case in together with the accompanying notes thereto.

The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 is based on the Annual Financial Statements and combines the historical statements of comprehensive income of HMS Group and GTNG and other applicable pro forma adjustments. The Unaudited Pro Forma Financial Information for the nine months ended 30 September 2010 is based on the Company Interim Financial Statements and combines the historical statements of comprehensive income of the Company and GTNG and other applicable pro forma adjustments.

The Unaudited Pro Forma Financial Information is compiled in a manner consistent with the accounting policies that will be adopted by the Company in preparing its next annual consolidated financial statements. The adjustments made in order to present the Unaudited Pro Forma Financial Information have been made based on available information and assumptions that management believes are reasonable.

All pro forma adjustments are factually supportable and expected to have a continuing impact on the Group.

This Unaudited Pro Forma Financial Information does not reflect the effect of the repayment of debt or other use of proceeds of the Offering.

The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 has been adjusted to reflect the acquisition of GTNG, as described in the Pro Forma adjustments section in the Notes to the Unaudited Pro Forma Financial Information on page F-233. The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 does not reflect any trading subsequent to 31 December 2009. The Unaudited Pro Forma Financial Information for the nine months ended 30 September 2010 does not reflect any trading subsequent to 30 September 2010.

The sources of the adjustments made in order to present the Unaudited Pro Forma Financial Information are set out on page F-233 of the Financial Information.

All amounts in this unaudited condensed pro forma financial information are in thousands of Roubles, except as otherwise indicated.

Unaudited pro forma statement of comprehensive income for the year ended 31 December 2009

	HMS Group historic information	GTNG historic information	Pro forma adjustments	Pro forma information
	(1)	*(2)*		
Revenue	14,772,269	1,997,212	—	16,769,481
Cost of sales	(11,164,202)	(1,674,137)	(4,934)	(12,843,273)
Gross profit	**3,608,067**	**323,075**	**(4,934)**	**3,926,208**
Distribution and transportation expenses	(482,576)	(2,640)	—	(485,216)
General and administrative expenses	(1,826,419)	(200,106)	(8,740)	(2,035,265)
Impairment of goodwill	(116,998)	—	—	(116,998)
Other operating expenses (net)	(97,636)	(18,668)	—	(116,304)
Operating profit	**1,084,438**	**101,661**	**(13,674)**	**1,172,425**
Finance income	58,424	79,286	(24,180)	113,530
Finance costs	(865,140)	—	(165,545)	(1,030,685)
Share of results of associates	17,193	—	—	17,193
Profit before income tax	**294,915**	**180,947**	**(203,399)**	**272,463**
Income tax expense	(211,765)	(63,619)	40,680	(234,704)
Profit for the year	**83,150**	**117,328**	**(162,719)**	**37,759**
Profit attributable to:				
Equity holders of the Company	(18,768)	117,328	(209,828)	(111,268)
Minority interest	101,918	—	47,109	149,027
	83,150	**117,328**	**(162,719)**	**37,759**
Other comprehensive income/(loss)				
Currency translation differences	(70,502)	—	—	(70,502)
Currency translation differences of associates	1,283	—	—	1,283
Other comprehensive loss for the year	**(69,219)**	**—**	**—**	**(69,219)**
Total comprehensive income/(loss) for the year	**13,931**	**117,328**	**(162,719)**	**(31,460)**
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	(63,877)	117,328	(209,828)	(156,377)
Minority interest	77,808	—	47,109	124,917
	13,931	**117,328**	**(162,719)**	**(31,460)**

(1) The statement of comprehensive income of the HMS Group for the year ended 31 December 2009 has been extracted from the Annual Financial Statements included in the Prospectus beginning on page F-2.

(2) The statement of comprehensive income of GTNG for the year ended 31 December 2009 has been extracted from the audited annual IFRS financial statements of GTNG as at and for the years ended 31 December 2008 and 2009 included in the Prospectus beginning on page F-160.

Pro forma adjustments for the year ended 31 December 2009 are presented below[1]:

	Additional depreciation expense	Additional amortisation expense	Adjustments to finance income and finance costs	Minority interest of GTNG	Pro forma adjustments
Revenue	—	—	—	—	—
Cost of sales	(4,934)	—	—	—	(4,934)
Gross profit	**(4,934)**	**—**	**—**	**—**	**(4,934)**
General and administrative expenses	(2,546)	(6,194)	—	—	(8,740)
Operating profit	**(7,480)**	**(6,194)**	**—**	**—**	**(13,674)**
Finance income	—	—	(24,180)	—	(24,180)
Finance costs	—	—	(165,545)	—	(165,545)
Profit before income tax	**(7,480)**	**(6,194)**	**(189,725)**	**—**	**(203,399)**
Income tax expense	1,496	1,239	37,945	—	40,680
Profit for the year	**(5,984)**	**(4,955)**	**(151,780)**	**—**	**(162,719)**
Profit attributable to:					
Equity holders of the Company	(5,984)	(4,955)	(151,780)	(47,109)	(209,828)
Minority interest	—	—	—	47,109	47,109
	(5,984)	**(4,955)**	**(151,780)**	**—**	**(162,719)**
Other comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the year	**(5,984)**	**(4,955)**	**(151,780)**	**—**	**(162,719)**
Total comprehensive income attributable to:					
Equity holders of the Company	(5,984)	(4,955)	(151,780)	(47,109)	(209,828)
Minority interest	—	—	—	47,109	47,109
	(5,984)	**(4,955)**	**(151,780)**	**—**	**(162,719)**

(1) See: "*Unaudited Condensed Pro Forma Financial Information—Notes to Unaudited Pro Forma Financial Information—Pro forma adjustments*" on page F-233 of the Unaudited Pro forma Financial Information for an explanation of the pro forma adjustments.

Unaudited pro forma statement of comprehensive income for the nine months ended 30 September 2010

	Company information	GTNG historic information	Pro forma adjustments	Pro forma information
	(1)	*(2)*		
Revenue	16,157,721	1,518,356	(538,921)	17,137,156
Cost of sales	(12,299,622)	(1,251,278)	448,218	(13,102,682)
Gross profit	**3,858,099**	**267,078**	**(90,703)**	**4,034,474**
Distribution and transportation expenses	(398,381)	(3,942)	1,943	(400,380)
General and administrative expenses	(1,374,456)	(163,968)	71,436	(1,466,988)
Other operating expenses (net)	(54,014)	(17,766)	(5,819)	(77,599)
Operating profit	**2,031,248**	**81,402**	**(23,143)**	**2,089,507**
Finance income	45,614	38,622	(13,410)	70,826
Finance costs	(668,200)	—	(41,386)	(709,586)
Share of results of associates	9,271	—	—	9,271
Profit before income tax	**1,417,933**	**120,024**	**(77,939)**	**1,460,018**
Income tax expense	(329,124)	(44,022)	25,566	(347,580)
Profit for the period	**1,088,809**	**76,002**	**(52,373)**	**1,112,438**
Profit attributable to:				
Equity holders of the Company	994,174	76,002	(82,526)	987,650
Non-controlling interest	94,635	—	30,153	124,788
	1,088,809	**76,002**	**(52,373)**	**1,112,438**
Other comprehensive income/(loss)				
Currency translation differences	(62,151)	—	—	(62,151)
Currency translation differences of associates	1,690	—	—	1,690
Other comprehensive loss for the period	**(60,461)**	**—**	**—**	**(60,461)**
Total comprehensive income for the period	**1,028,348**	**76,002**	**(52,373)**	**1,051,977**
Total comprehensive income attributable to:				
Equity holders of the Company	947,126	76,002	(82,526)	940,602
Non-controlling interest	81,222	—	30,153	111,375
	1,028,348	**76,002**	**(52,373)**	**1,051,977**

(1) The statement of comprehensive income of the Company and its subsidiaries for the nine months ended 30 September 2010 has been extracted from the Company Interim Financial Statements included in the Prospectus beginning on page F-119.

(2) The statement of comprehensive income of GTNG for the nine months ended 30 September 2010 has been extracted from the reviewed (unaudited) interim condensed IFRS financial statements of GTNG as at and for the nine months ended 30 September 2010 included in the Prospectus beginning on page F-202.

Pro forma adjustments for the nine months ended 30 September 2010 are presented below[1]:

	Elimination of operations recognised after the acquisition	Additional depreciation expense	Additional amortisation expense	Adjustments to finance income and finance costs	Elimination of amortisation of past service cost	Minority interest of GTNG	Pro forma adjustments
Revenue	(538,921)	—	—	—	—	—	(538,921)
Cost of sales	447,427	(3,700)	—	—	4,491	—	448,218
Gross profit	**(91,494)**	**(3,700)**	**—**	**—**	**4,491**	**—**	**(90,703)**
Distribution and transportation expenses	1,943	—	—	—	—	—	1,943
General and administrative expenses	77,991	(1,910)	(4,645)	—	—	—	71,436
Other operating expenses (net)	(5,819)	—	—	—	—	—	(5,819)
Operating profit	**(17,379)**	**(5,610)**	**(4,645)**	**—**	**4,491**	**—**	**(23,143)**
Finance income	(7,607)	—	—	(5,803)	—	—	(13,410)
Finance costs	—	—	—	(41,386)	—	—	(41,386)
Profit before income tax	**(24,986)**	**(5,610)**	**(4,645)**	**(47,189)**	**4,491**	**—**	**(77,939)**
Income tax expense	14,077	1,122	929	9,438	—	—	25,566
Profit for the period	**(10,909)**	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**
Profit attributable to:							
Equity holders of the Company	(4,451)	(4,488)	(3,716)	(37,751)	4,491	(36,611)	(82,526)
Non-controlling interest	(6,458)	—	—	—	—	36,611	30,153
	(10,909)	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**
Other comprehensive income/ (loss) for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the period	**(10,909)**	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**
Total comprehensive income attributable to:							
Equity holders of the Company	(4,451)	(4,488)	(3,716)	(37,751)	4,491	(36,611)	(82,526)
Non-controlling interest	(6,458)	—	—	—	—	36,611	30,153
	(10,909)	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**

(1) See: "*Unaudited Condensed Pro Forma Financial Information—Notes to Unaudited Pro Forma Financial Information—Pro forma adjustments*" on page F-233 of the Unaudited Pro forma Financial Information for an explanation of the pro forma adjustments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of HMS Group's financial condition and results of operations as at and for the years ended 31 December 2007, 2008 and 2009 and the nine-month period ended 30 September 2010 and GTNG's financial condition and results of operations as at and for the years ended 31 December 2008 and 2009 and the nine-month period ended 30 September 2010 and of the material factors that the Group believes have affected and may affect its financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements, including, in each case, the notes thereto and the other information included elsewhere in this Prospectus. See also "Presentation of Financial and Other Information". The Consolidated Financial Statements are prepared in accordance with IFRS.

This section contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements". In this section, unless otherwise indicated, the financial information discussed is extracted or derived from the Consolidated Financial Statements and the GTNG Financial Statements.

Overview

The Group is the leading pump manufacturer and provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utility sectors in Russia and the CIS. According to Frost & Sullivan, in 2009 the Group had a 41% market share in Russia (by revenues) in its core industrial pumps segment, a 35% market share in Russia (by revenues) in its core modular equipment market segments and a growing presence in its core EPC segments. The Group's products are mission-critical elements of projects across a diverse range of industries. The Group has participated in a number of large-scale infrastructure projects in Russia, including providing pumps and modular equipment to the Vankor oil field and pumping stations for the ESPO oil pipeline.

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

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

The Group's diversified business model and leading position in its core markets, as well as the sustained demand for many of its products and services allowed the Group to continue to increase revenues and maintain profitability, despite the effects of the global economic downturn, which negatively impacted the Russian economy in the second half of 2008 and throughout 2009.

The Group provides integrated flow control solutions through three complementary business units, each of which represents one of the Group's principal segments for accounting purposes: industrial pumps, modular equipment and EPC services.

Basis of Preparation of the Consolidated Financial Statements and Financial Information

The Consolidated Financial Statements and the GTNG Financial Statements have been prepared in accordance with IFRS. The Group has three reportable segments: the industrial pumps segment, the modular equipment segment and the EPC segment, which are the Group's strategic business units. To measure performance of these segments, the Group examines certain segment financial information, including inter-segment and external revenue and Adjusted EBITDA, as it believes that such information is the most relevant in evaluating the results of its segments relative to other entities that operate within the Group's industries.

IFRS 8, *Operating Segments*, requires segment information to be prepared on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Under IFRS 8, a change in the type of information that is available to the chief operating decision maker (which, in the case of HMS Group, is the general director) in different reporting periods to determine operating segments does not require a restatement of the segment information for prior periods. The Group early adopted IFRS 8, *Operating Segments*, for the years ended 31 December 2008 and 2007. The basis for the Group's segment information for the years ended 31 December 2007 and 2008 and for the year ended 31 December 2009 and thereafter differ in certain respects. See Note 36 to the Annual Financial Statements and Note 32 to the Interim Financial Statements as well as the further detailed discussion below.

Before 2009, management assessed the performance of the operating segments primarily based on management reports derived from statutory accounting records, other than Adjusted EBITDA, which was derived from audited consolidated financial statements prepared in accordance with IFRS. Accordingly, under IFRS 8, for the years ended 31 December 2007 and 2008 the Group determined its segment revenue based on its Russian GAAP accounting records and determined its segment Adjusted EBITDA based on its audited consolidated financial statements prepared in accordance with IFRS. Starting from 2009, management assesses the performance of the operating segments and determines its segment revenue and Adjusted EBITDA under IFRS 8 based on management reports primarily derived from unaudited IFRS financial information. As a result, in the Annual Financial Statements, segment financial information for the years ended 31 December 2008 and 2007 is not prepared on the same basis as the segment information for the year ended 31 December 2009 and, consequently, is not comparable.

To facilitate segmental comparisons across periods, in this "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", the Group has presented segment revenue and Adjusted EBITDA based on IFRS accounting records which are the basis of the Group's audited or reviewed IFRS financial statements for the relevant period. This segment financial data has not been audited or reviewed. It also has not been prepared under IFRS 8. The Group believes, however, that a discussion of segment revenue and Adjusted EBITDA data based on IFRS accounting records which are the basis of the Group's audited or reviewed IFRS financial statements for the relevant period, rather than internal management reports or statutory Russian GAAP accounting records, provides a better basis for comparison of the performance of the Group's segments across periods than the Group's segment information prepared under IFRS 8. For a discussion of the Group's segment information prepared under IFRS 8, see Note 36 to the Annual Financial Statements and Note 32 to the Interim Financial Statements.

Adjusted EBITDA where used in this "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", is defined as operating profit/loss adjusted for other operating expenses (net), excess of fair value of net assets acquired over the cost of acquisition, impairment of goodwill, impairment of property, plant and equipment and intangible assets, depreciation and amortisation, provision for impairment of accounts receivable, provision for obsolete inventories, warranty provision, provision for VAT receivable, provision for legal claims, defined benefits scheme expense/(income) and unused vacation allowance.

Current Trading and Recent Developments

Based on the Group's internal management accounts, which are not prepared in accordance with IFRS or Russian GAAP the Group believes that its business has performed in line with its expectations in the fourth quarter of 2010. The Company believes its industrial pumps and modular equipment business units remained strong in the fourth quarter of 2010 due to a continuation of the market trends that drove growth throughout the year. The trend of increasing demand for complex integrated solutions continued in the fourth quarter resulting in an increase in the volume of work carried out by the Group and improved pricing for many of the Group's products, particularly customized pumps.

The Company believes the Group's EPC business unit showed a less robust performance in the last quarter of 2010 compared to the prior corresponding period principally due to the Group having recognised significant revenues from a single contract in the fourth quarter of 2009. However, the Company believes that its EPC business unit, particularly after the GTNG acquisition, is well positioned to benefit from potential growth in demand for EPC services and the potential growth of capital expenditures of EPC customers.

Prior to the global economic downturn, the Group's customers in the oil and gas industry typically conducted a significant proportion of their annual tenders in November and December of each year.

However, in 2009 and 2010, a number of these customers moved tenders to the period between December and February of the following year. The number of tenders in which the Group participated and in which it was successful in the fourth quarter of 2010 was comparable to the same period in the previous year. The Group anticipates that it is favourably positioned to gain further contract wins in the first quarter of 2011.

In February 2011, Hydromashservice and Neftemash entered into addendum agreements with respect to three Sberbank loan agreements under which they agreed to pledge by 15 April 2011 43% of the share capital of Tomskgazstroy, 49% of the share capital of SKMN and an additional stake in DGkhM, as well as to enter into certain other subsequent pledges of assets either already pledged to Sberbank under the same three loan agreements or to be pledged thereunder as discussed above.

In December 2010, ZAO Hydromashservice, a subsidiary of the Group, signed a RUR 2 billion credit facility with Sberbank. As of the date of this Prospectus, ZAO Hydromashservice has not made any drawdowns under this facility, which matures in December 2013. To secure its repayment obligations under this agreement, the Group has pledged in favor of Sberbank receivables under supply contracts in connection with the ESPO project.

Significant Factors Affecting the Group's Results of Operations

Introduction

The principal factors that have affected the Group's results of operations during the periods under review, and that can be expected to affect its results of operations in the future, include the following:

Levels of capital expenditures of the Group's customers

The Group's results of operations are affected by the levels of capital expenditure that its customers in the oil and gas, power generation and water utility sectors allocate to projects that require the Group's products and services. These levels of capital expenditure are affected by the following:

- *The price of oil.* The price of oil, both internationally and in Russia, influences the levels of capital expenditure of the Group's customers in the oil and gas sector. The downward trend in the prices of Urals crude between 2008 and 2009, which fell from an average price of US$ 688.5 per tonne in 2008 to an average price of US$ 444.5 per tonne in 2009, according to Rosstat, led to a reduction in capital investment levels of oil and gas companies in 2009 and 2010. However, expenditures connected with the maintenance of production levels, including the repair and replacement of modular equipment and pumps in the short-term tend to be less closely correlated to oil prices and, accordingly, were not materially affected in 2008 and 2009. In addition, all of the projects nearing completion in 2008 and 2009 for which the Group was providing pumping equipment were completed.
- *Taxation of the oil and gas industry.* The Group's customers in the oil and gas sector are subject to a broad range of taxes and duties imposed at the federal, regional and local levels. The tax regime for companies extracting oil in Eastern Siberia and certain other less developed regions is more favourable in order to encourage investment in unexploited oil reserves that require the construction of highly capital intensive production and transport infrastructure. The current system of taxation is an impediment to large-scale investment in most other regions of Russia. Should the Government offer tax breaks, capital investment in new greenfield projects may increase.
- *Availability and cost of finance in Russia.* Following the onset of the economic downturn in Russia in the third quarter of 2008, interest rates in Russia increased significantly and external sources of finance became more expensive for many of the Group's customers throughout 2009. In addition, the operating cash flows of these customers suffered due to higher finance costs on their existing variable rate debt, or with respect to any new debt incurred. As a result, many of these customers were forced to reduce their spending on capital expenditure and postpone or cancel proposed and/or existing projects. However, from the second half of 2009, the situation improved, with interest rates decreasing and access to capital increasing.
- *State support.* Some of the Group's most significant customers by revenue are state-controlled entities, such as Rosneft, Transneft and Rosatom. With the support of the Russian state-controlled banks and other forms of state support, such as favourable tax treatment, many of these customers have had the financial strength necessary to fund their capital-intensive projects and continued to spend despite the economic downturn in Russia. See "—*State funded/supported infrastructure projects*" below for further

information on the impact of state support on the Group's financial condition and results of operations.

- *Increasing capital intensity of oil production activities in Russia.* As Russian oil and gas fields mature, the extraction of hydrocarbon reserves requires more intensive capital investment in pumps and other equipment, in particular to process increasing volumes of fluids produced as water cut rises. As a result, demand for the Group's products has been increasing and is expected to continue to increase. In addition, new oil and gas field projects are increasingly located in more remote regions of Russia where there has not historically been significant oil and gas production, such as Eastern Siberia, or involve resources which are more difficult to develop, for example, heavier oil or oil from deep reservoirs. Their development is consequently more complex and expensive and requires more of the Group's products and services and, in particular, result in higher demand for integrated solutions and other complex and highly engineered products and services than has historically been the case for developments of more conventional resources in regions where the oil and gas industry is more developed. See "*Industry Overview—Key trends in the global pump market—Integrated Solutions*".

State funded/supported infrastructure projects

The Group's results of operations are affected by levels of investment to replace, modernise or expand Russia's oil pipeline, oil field, oil refineries, water utility and power generation infrastructure, including investment directly funded or indirectly supported by the Government through, for example, the granting of favourable tax treatment for the development of oil field development projects in relatively undeveloped regions. See "*Industry*" for further information. The Group believes that the following current and planned infrastructure projects could offer significant further business opportunities for entities operating in the Group's business units:

- *Trunk pipeline infrastructure.* Much of Russia's oil pipeline network was constructed prior to 1985 and urgently needs to be upgraded to increase pump efficiency and replace equipment nearing the end of its useful life. In addition, the development of new oil fields in more remote areas of Russia, such as Eastern Siberia, will require the construction of new pipeline networks to be connected to the Transneft network. Major new pipelines are also being constructed to improve connections to export markets and a number of large projects are expected to enter the construction phase in 2011. Transneft has announced four major projects, the ESPO-1 expansion, construction of ESPO-2, Purpe-Samotlor and Zapolyarnoe-Purpe, and stated that it will invest US$32.3 billion into these projects by the end of 2013. The ESPO pipeline project involves the construction in four stages (ESPO-1, which is already completed, the expansion of ESPO-1, construction of ESPO-2 and the expansion of ESPO-2) of a pipeline from Eastern Siberia to China and the Pacific Ocean and, when completed, is expected to include approximately 41 pumping stations. The Group has entered into contracts with Transneft and its general contractors in respect of the ESPO-1 expansion, ESPO-2 and Purpe-Samotlor pipelines, which are expected to generate significant revenues for the Group over the medium term, and expects to participate in tenders for other projects in the future.
- *Water utility infrastructure.* The modernisation of Russia's water utility infrastructure is a key priority for the Government. The water system in Russia has suffered from years of underinvestment, with much of the infrastructure dating back to the Soviet era. According to Frost & Sullivan, between 35% and 60% of drinking water reserves in Russia do not meet sanitary standards and 11 million people do not have access to clean drinking water. The Government has estimated that US$ 11 billion will be required to complete the necessary upgrades of Russia's water utility infrastructure by 2017. The levels of water tariffs have historically not allowed sufficient investment into Russia's water infrastructure. However, the Government has for several years pursued a policy of allowing water tariffs to increase substantially above the rate of inflation in order to allow an increase in investment and has announced its intention to attract investment in water infrastructure through public-private partnerships. In 2006, the Government launched the 'Clean Water Programme' with the aim of upgrading the water supply and sewage systems in Russia. According to Frost & Sullivan, it is estimated that the fulfilment of this programme will require US$ 59 billion of investment in total, with planned annual investments of US$ 4 billion. The Group believes that it is well positioned to win contracts relating to the upgrade of Russia's water utility infrastructure.
- *Nuclear power generation infrastructure.* In order to meet growing demand for electricity, the Government plans to double Russia's nuclear power generating capacity by 2030 and the investment will be undertaken by state-owned entities. As part of this strategy, eight new nuclear reactors are to

be constructed in Russia and a further 15 nuclear reactors are to be retrofitted by 2015. The Group has already signed contracts in respect of the construction of four nuclear reactors. According to Frost & Sullivan, capital expenditures on the Russian civilian nuclear power programme are expected to reach between US$ 100 billion and US$ 139 billion between 2010 and 2030. In addition, nuclear reactor construction projects in other countries, including China, Vietnam, India, Bulgaria and Turkey have been announced and are expected to be commissioned using Russian technology and equipment produced from Russian manufacturers.

Mix of products and services offered

Changes in the Group's mix of products and services sold affect revenues and profitability. In particular, the Group is able to charge a premium for higher value-added, customised products, design services and integrated solutions, which involve the design, management and commissioning of complex systems.

- *Integrated solutions.* Customers are willing to pay a premium to a single supplier that can design, manufacture, deliver, install and service customised products and / or integrated solutions compared to those which can only supply standard products or parts of a system and increases in such sales have historically driven higher revenue and profitability. See "*Industry Overview—Key trends in the global pump market—Integrated solutions*". During the period under review, demand for the Group's customised products and integrated solutions has increased, leading to higher revenues and profitability. The Group expects that demand for its integrated solutions offerings will continue to increase in certain sectors. For example, according to Frost & Sullivan, there is increasing demand for integrated solutions as opposed to stand-alone products from the nuclear power generation sector, driven by safety and security concerns. Similarly, many of the Group's water injection pumps customers have been increasingly looking to source both integrated solutions and after-sales services from a single supplier.
- *Higher margin engineering and design services.* The acquisition of GTNG, a leading independent Russian R&D centre specialising in the design of oil and gas fields, has resulted in a significant increase in the share of higher margin engineering and design services in the EPC segment, where revenues previously largely consisted of lower margin construction work.

Prices of ferrous metals

A significant portion of the Group's cost of sales is linked to the price of ferrous metals, whether in the form of raw materials or as a major input for components purchased by the Group. For short-term contracts, the Group seeks to pass price fluctuations on to customers. However, sharp fluctuations in ferrous metals can affect margins. For long-term contracts, the Group seeks to manage its exposure to potential increases in the prices of raw materials by seeking prepayments from customers, which it uses to purchase materials in advance of manufacture. Prices of ferrous metals have been volatile over the periods under review, rising rapidly in the first half of 2008 before falling significantly in the second half of 2008 and into 2009. In the nine months ended 30 September 2010, ferrous metals prices increased, as compared to the same period in 2009.

Acquisitions

Since 2003, the Group has made a number of significant acquisitions and the Group's results of operations in the period under review reflect the impact of these acquisitions. As a result of these acquisitions, the Group's financial information is not directly comparable period on period.

The following companies were consolidated into the Consolidated Financial Statements between January 2007 and 30 September 2010. During the periods under review, the Group also increased its ownership interests in a number of its other subsidiaries, as well as associates. For further information, see Note 10 to the Annual Financial Statements and Note 9 to the Interim Financial Statements.

GTNG

The Group obtained control over GTNG, a leading independent Russian R&D centre specialising in the design of oil and gas fields, in June 2010, with the acquisition of 51.0% of the voting shares of GTNG for cash consideration of RUR 2,467,330 thousand, which amounted to a total ownership interest of 38.3% of the issued and outstanding share capital of GTNG. In September 2010, the Group acquired an additional interest in GTNG, increasing its ownership interest to 45.9% of the issued and outstanding share capital of

GTNG. Its ownership interest in the voting shares of GTNG remained unchanged. This Prospectus includes the stand-alone financial statements of GTNG for the years ended 31 December 2008 and 2009 and the nine months ended 30 September 2010, as well as pro forma financial statements showing the effect of the acquisition of GTNG as if it had occurred on 1 January 2009. For further information, see "*—Management's Discussion and Analysis of the Financial Condition and Results of Operations of GTNG*", "*Unaudited Pro Forma Condensed Financial Information*" and "*Business*".

OAO EPF "SIBNA" Inc.

In June 2009, the Group obtained control over OAO EPF "SIBNA" Inc. ("**SibNA**"), a manufacturer of high-precision measuring equipment for the oil and gas and water utility sectors located in Tyumen, by acquiring a 46.8% interest in the company, increasing the Group's ownership interest from 29.9% to 76.7% for cash consideration of RUR 247,896 thousand. SibNA was consolidated into the Group in June 2009. The Group currently holds effectively 78.3% of the share capital of SibNA.

OAO Promburvod Plant

In December 2008, the Group obtained control over OAO Promburvod Plant ("**Promburvod**"), a manufacturer of submersible pumps based in Minsk, Belarus, by acquiring an additional 11.4% of the share capital of Promburvod for cash consideration of RUR 5,075 thousand, increasing the Group's ownership interest to 51.4%. Promburvod was consolidated into the Group in December 2008.

OAO Institute Rostovskiy Vodokanalproekt

The Group acquired a 72.0% interest in OAO Institute Rostovskiy Vodokanalproekt ("**RVKP**"), a project and design firm based in Rostov-on-Don specialising in the design of water supply systems, sewage systems and related equipment for cash consideration of RUR 163,049 thousand in December 2008. RVKP was consolidated into the Group in December 2008. The Group currently holds 67.4% of the issued share capital of RVKP as a result of the issue of additional shares by RVKP's parent company. See note 9 to the Interim Financial Statements.

ZAO SPA Gidromash

The Group acquired a 99.5% interest in ZAO SPA Gidromash ("**Gidromash**"), a pump manufacturer for cash consideration of RUR 129,754 thousand in November 2008. ZAO SPA Gidromash was consolidated into the Group in November 2008.

OAO Tomskgazstroy

The Group obtained control over OAO Tomskgazstroy ("**Tomskgazstroy**"), a trunk oil and gas pipeline construction company based in Tomsk, with the acquisition of an additional 28.0% interest in the share capital of Tomskgazstroy for total cash consideration of RUR 56,782 thousand in November 2007. The Group acquired further interests in the company in a series of transactions in 2009 and in March 2010 and currently effectively holds 80.8% of the issued and outstanding share capital of Tomskgazstroy.

OAO Trest Sibkomplektmontazhnaladka

The Group acquired a 73.9% interest in OAO Trest Sibkomplektmontazhnaladka ("**SKMN**"), a design and construction firm based in Tyumen that develops oil and gas fields, in July 2007 for total cash consideration of RUR 428,359 thousand and an additional 23.0% interest in separate transactions in August and November 2007 for total cash consideration of RUR 22,723 thousand. SKMN was consolidated into the Group in July 2007. In February 2008 and January 2009, the Group acquired two further stakes of 1.4% each for total cash consideration of RUR 3,319 thousand. The Group currently holds 82.1% of the issued and outstanding share capital of SKMN as a result of an issue of shares by SKMN. See note 9 to the Interim Financial Statements.

Description of Key Operating and Financial Items

The following discussion provides a description of the composition of the key operating and financial line items in HMS Group's consolidated statement of comprehensive income for the periods presented.

Revenue

The principal components of the Group's revenue comprise sales of pumps and spare parts, including pumps for the oil and gas, power generation and water utility sectors, as well as aftermarket services, revenue from construction contracts relating to the design and construction of oil and gas fields and oil and gas and water infrastructure and sales of modular equipment for the oil and gas and water utility sectors, including pumping stations and metering equipment.

Sales of pumps and spare parts

The Group sells pumps and spare parts to customers in the oil and gas, power generation and water utility sectors. Sales of pumps and spare parts also include sales of installation, repair and maintenance services. As a percentage of revenue, sales of pumps and spare parts represented 42.9% and 30.7% for the nine months ended 30 September 2009 and 2010 and 33.6%, 34.1% and 40.3% for the years ended 31 December 2007, 2008 and 2009, respectively.

The Group sells standard pumps and customised pumps, on a stand-alone basis or as part of complex, integrated systems. Contract terms vary depending on the product or service purchased. The manufacture of standard pumps is typically straightforward, involving minimal or no design work, and the contract is usually completed in less than three months. However, contracts for the design and manufacture of customised pumps or pumps that form part of complex, integrated systems, such as those used in nuclear power stations, can take up to two years to complete. Typically, where a customer is purchasing a complex integrated pumping system, the customer makes a pre-payment of up to 50% of the contract amount.

Revenue from construction contracts

Revenue from construction contracts comprises revenue from construction services provided to customers under construction contracts and revenue from the sale of certain equipment. The revenue from construction and delivery of oil pipeline pump systems for Purpe-Samotlor and ESPO oil pipelines is also included in revenue from construction contracts. As a percentage of revenue, revenue from construction contracts represented 18.9% and 44.0% for the nine months ended 30 September 2009 and 2010 and 23.5%, 34.4% and 28.3% for the years ended 31 December 2007, 2008 and 2009, respectively. The Group accounts for these revenues using the percentage-of-completion method. See "—*Critical Accounting Estimates and Judgments*". Revenue from construction contracts also includes revenue from the sale of certain materials and equipment procured by the Group on behalf of its customers. The Group applies only a limited margin to this part of the construction costs, which has a negative impact on the Group's overall gross margin.

Sales of modular equipment

Sales of modular equipment include various equipment, including pumping stations and metering equipment, used by customers in the oil and gas and water utility sectors. As a percentage of revenue, revenue from modular equipment represented 29.5% and 19.1% for the nine months ended 30 September 2009 and 2010 and 20.5%, 23.6% and 23.0% for the years ended 31 December 2007, 2008 and 2009, respectively.

Cost of sales

As a percentage of revenue, the Group's cost of sales represented 72.6% and 76.1% for the nine months ended 30 September 2009 and 2010 and 80.7%, 76.7% and 75.6% for the years ended 31 December 2007, 2008 and 2009, respectively.

The principal components of the Group's cost of sales, which are those costs that it incurs directly in selling or producing its products and services, comprise supplies and raw materials (which represented as a proportion of total cost of sales 47% and 64% for the nine months ended 30 September 2009 and 2010 and 50%, 51% and 55% for the years ended 31 December 2007, 2008 and 2009, respectively), labour costs (which as a proportion of total cost of sales represented 19% and 15% for the nine months ended 30 September 2009 and 2010 and 15%, 18% and 16% for the years ended 31 December 2007, 2008 and 2009, respectively) and cost of goods sold (which as a proportion of total cost of sales represented 17% and 12% for the nine months ended 30 September 2009 and 2010 and 24%, 13% and 15% for the years ended 31 December 2007, 2008 and 2009, respectively), which represent equipment procured from third parties by the Group on behalf of customers.

Supplies and raw materials

The Group's supplies and raw materials costs are driven principally by production volumes and the price of ferrous metals. The Group seeks to limit its exposure to movements in the prices of ferrous metals by requiring customers to make prepayments where it has a long-term contract, which enables the Group to purchase raw materials in advance of manufacture. Prices of ferrous metals have been volatile over the periods under review, rising rapidly in the first half of 2008 before falling significantly in the second half of 2008 and into 2009. In the nine months ended 30 September 2010, ferrous metals prices increased, as compared to the same period in 2009.

The Group is not directly exposed to currency movements since the majority of its suppliers of raw materials are domestic.

Labour costs

Labour costs comprise salaries and wages expenses for the Group's production employees, including social taxes, provision for unused vacation and other costs.

Cost of goods sold

As well as stand-alone products, the Group provides integrated systems to its customers. The Group manufactures products, such as pumps and pumping stations, which form part of such integrated systems and procures any separate equipment required for the fulfilment of a project from third parties for resale to its customers. These additional products purchased from third parties are recorded in cost of sales as cost of goods sold.

Construction and installation works of subcontractors

The Group engages subcontractors to carry out certain works in relation to the Group's construction projects.

Distribution and transportation expenses

As a percentage of revenue, the Group's distribution and transportation expenses represented 3.8% and 2.5% for the nine months ended 30 September 2009 and 2010 and 3%, 3.7% and 3.3% for the years ended 31 December 2007, 2008 and 2009, respectively.

Distribution and transportation expenses comprise primarily labour costs and transport expenses. Labour costs comprise the salaries and bonuses of all employees engaged in the selling activities of the Group, including social taxes and provision for unused holidays. Transport expenses comprise the cost of delivering products from the Group's warehouses to customers and consist primarily of rail tariffs.

General and administrative expenses

As a percentage of revenue, the Group's general and administrative expenses represented 13.5% and 8.5% for the nine months ended 30 September 2009 and 2010 and 9.2%, 11.8% and 12.4% for the years ended 31 December 2007, 2008 and 2009, respectively.

Labour costs comprise the majority of the Group's general and administrative expenses (which as a proportion of total general and administrative expenses represented 59% and 61% for the nine months ended 30 September 2009 and 2010 and 57%, 58% and 60% for the years ended 31 December 2007, 2008 and 2009, respectively) and include the salaries, bonuses, provision for unused vacation and other costs of the Group's management team and administrative personnel.

Share of results of associates

Associates are entities over which the Group has significant influence (directly or indirectly) but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's share of the profits or losses of associates is recorded as a share of results of associates. These interests are accounted for under the equity method and the results of operations of these companies are not consolidated in the Group's financial statements. As at 31 December 2007, the Group had three associates, OAO Dimitrovgradkhimmash ("**DGKhM**"), OAO VNIIAEN ("**VNIIAEN**") and Promburvod. As at 31 December 2008, the Group had four associates, DGKhM, VNIIAEN, OOO

Vodokanalproektirovanie and SibNA. As at 31 December 2009, the Group had two associates, DGKhM and VNIIAEN. As at 30 September 2010, the Group had two associates, DGKhM and VNIIAEN.

Entitlement of participants in respect of their interest in HMS Group

For the year ended 31 December 2007 and until 29 August 2008, HMS Group's predecessor was a limited liability company, Investment and Industrial Group Hydraulic Machines and Systems OOO ("**IIGHMS**"), which was incorporated in Russia. Until 29 August 2008, the equity participants of IIGHMS had a right to request redemption of their interests in IIGHMS in cash. The obligation of IIGHMS to redeem gave rise to a financial liability for the present value of the redemption amount even though the obligation was conditional on the equity participant exercising the right. See note 3 to the Annual Consolidated Financial Statements for further information.

HMS Group Results of Operations for the Nine Months Ended 30 September 2010 compared to the Nine Months Ended 30 September 2009

The following table sets forth HMS Group's consolidated statement of comprehensive income for the nine months ended 30 September 2009 and 2010.

	Nine months ended 30 September			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue	9,775,040	100.0%	16,157,721	100.0%
Cost of sales	(7,097,756)	(72.6)%	(12,299,622)	(76.1)%
Gross profit	**2,677,284**	**27.4%**	**3,858,099**	**23.9%**
Distribution and transportation expenses	(367,554)	(3.8)%	(398,381)	(2.5)%
General and administrative expenses	(1,317,691)	(13.5)%	(1,373,794)	(8.5)%
Other operating expenses, net	(90,493)	(0.9)%	(53,950)	(0.3)%
Impairment of goodwill	(116,998)	(1.2)%	—	—
Operating profit	**784,548**	**8.0%**	**2,031,974**	**12.6%**
Finance income	49,780	0.5%	51,903	0.3%
Finance costs	(658,315)	(6.7)%	(668,200)	(4.1)%
Share of results of associates	22,920	0.2%	9,271	0.1%
Profit before income tax	**198,933**	**2.0%**	**1,424,138**	**8.8%**
Income tax expense	(137,332)	(1.4)%	(329,131)	(2.0)%
Profit for the period	**61,601**	**0.6%**	**1,095,007**	**6.8%**
Profit for the period allocated as follows:				
Equity holders of the HMS Group	(36,673)	(0.4)%	1,000,372	6.2%
Non-controlling interest	98,274	1.0%	94,635	0.6%
Other comprehensive income				
Currency translation differences	(99,812)	(1.0)%	(62,151)	(0.4)%
Currency translation differences of associates	(3,514)	(0.0)%	1,690	0.0%
Other comprehensive profit/(loss) for the period	**(103,326)**	**(1.1)%**	**(60,461)**	**(0.4)%**
Total comprehensive income/(loss) for the period	**(41,725)**	**(0.4)%**	**1,034,546**	**6.4%**

Revenue

HMS Group's consolidated revenues increased by RUR 6,382,681 thousand, or 65%, to RUR 16,157,721 thousand for the nine months ended 30 September 2010, from RUR 9,775,040 thousand for the nine months ended 30 September 2009. This increase was attributable primarily to a significant increase in revenue from construction contracts.

The table below sets forth HMS Group's revenues in the periods indicated.

	Nine months ended 30 September			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue from construction contracts	1,813,336	18.6%	7,115,132	44.0%
Sales of pumps and spare parts	4,190,669	42.9%	4,967,317	30.7%
Sales of modular equipment	2,884,546	29.5%	3,093,235	19.1%
Sales of repair services for oil field equipment	496,394	5.1%	450,510	2.8%
Sales of electric motors	73,010	0.7%	157,356	1.0%
Sales of products, work and services of auxiliary units	31,934	0.3%	51,616	0.3%
Sales of other services and goods	285,151	2.9%	322,555	2.0%
Total	**9,775,040**	**100.0%**	**16,157,121**	**100.0%**

Revenues from construction contracts increased by RUR 5,301,796 thousand, or 292%, to RUR 7,115,132 thousand for the nine months ended 30 September 2010, from RUR 1,813,336 thousand for the nine months ended 30 September 2009. This increase was attributable to a general increase in activity in the oil field construction and design services market in the first nine months of 2010. A number of oil field developments projects were delayed during the first half of 2009 due to the global economic downturn and as a result, HMS Group did not recognise the majority of its full year revenues from construction contracts until the fourth quarter of 2009. The Group recognised RUR 2,352,800 thousand of revenues from its contracts with Transneft and Transneft's general contractor related to the ESPO and Purpe-Samotlor pipeline projects. The Group also completed a water utility contract for the Turkmenistan Government. In addition, the revenues of GTNG were consolidated into the results of the Group from the date of its acquisition.

Revenues from the sale of pumps and spare parts increased by RUR 776,648 thousand, or 19%, to RUR 4,967,317 thousand for the nine months ended 30 September 2010, from RUR 4,190,669 thousand for the nine months ended 30 September 2009 due to increases in the pricing levels of the Group's products and services and the volume of products and services sold as a result of the general recovery in the markets in which the Group operates in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009.

Revenues from the sale of modular equipment increased by RUR 208,689 thousand, or 7%, to RUR 3,093,235 thousand for the nine months ended 30 September 2010, from RUR 2,884,546 thousand for the nine months ended 30 September 2009. This increase was principally attributable to an increase in the volume of modular equipment units sold in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009. However, this increase in volume was offset by lower average selling prices for the modular equipment that the Group sold in the nine months ended 30 September 2010, as compared to the nine months ended 2009, due to the fact that a number of these contracts were entered into in 2009, when modular equipment prices were driven lower as a result of the effects of the global economic crisis.

Cost of sales

HMS Group's cost of sales increased by RUR 5,201,866 thousand, or 73%, to RUR 12,299,622 thousand for the nine months ended 30 September 2010, from RUR 7,097,756 thousand for the nine months ended 30 September 2009, driven principally by increases in supplies and raw materials and labour costs. As a percentage of revenues, cost of sales increased to 76.1% for the nine months ended 30 September 2010, from 72.6% for the nine months ended 30 September 2009, principally due to a significant increase in revenues from EPC contracts, which involve the procurement of certain equipment, materials and services

on behalf of customers that results in lower margins from EPC contracts in comparison with other types of sales contracts, and due to a decrease in margin from sales of modular equipment.

	Nine months ended 30 September			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Supplies and raw materials	3,345,113	34.2%	7,860,122	48.6%
Labour costs	1,362,903	13.9%	1,817,281	11.2%
Cost of goods sold	1,177,555	12.0%	1,491,898	9.2%
Construction and installation works of subcontractors	360,564	3.7%	391,090	2.4%
Depreciation and amortisation	199,740	2.0%	193,961	1.2%
Utilities	113,942	1.2%	156,250	1.0%
Defined benefits scheme expense	—	—	29,499	0.2%
Warranty provision	11,434	0.1%	22,376	0.1%
Impairment of property, plant and equipment and intangible assets	14,320	0.1%	—	—
Provision for obsolete inventories	93,887	1.0%	(112,560)	(0.7)%
Change in work in progress and finished goods	63,082	0.6%	(185,116)	(1.1)%
Other expenses	355,216	3.6%	634,821	3.9%
Total	**7,097,756**	**72.6%**	**12,299,622**	**76.1%**

Supplies and raw materials represented the largest portion of HMS Group's cost of sales, increasing to 64% of the total cost of sales for the nine months ended 30 September 2010, from 47% of the total cost of sales for the nine months ended 30 September 2009. Supplies and raw materials costs increased by RUR 4,515,009 thousand, or 135%, to RUR 7,860,122 thousand for the nine months ended 30 September 2010, from RUR 3,345,113 thousand for the nine months ended 30 September 2009. The increase in raw materials costs was principally attributable to increased production volumes and an increase in the share of integrated solutions contracts, which involve the procurement of equipment, materials and services on behalf of customers. In addition, ferrous metals prices increased over the nine months ended 30 September 2010, as compared to the same period in 2009.

Labour costs increased by RUR 454,378 thousand, or 33%, to RUR 1,817,281 thousand for the nine months ended 30 September 2010, from RUR 1,362,903 thousand for the nine months ended 30 September 2009. This increase was primarily due to an increase in man hours in line with an increase in production volumes and due to the acquisition of GTNG. As a percentage of revenue, labour costs decreased to 11.2%, from 13.9% over the same period.

Cost of goods sold increased by RUR 314,343 thousand, or 27%, to RUR 1,491,898 thousand for the nine months ended 30 September 2010, from RUR 1,177,555 thousand for the nine months ended 30 September 2009. This increase was attributable to an increase in the number of integrated solutions contracts requiring HMS Group to source equipment from third parties.

Cost of construction and installation works of subcontractors increased by RUR 30,526 thousand, or 8%, to RUR 391,090 thousand for the nine months ended 30 September 2010, from RUR 360,564 thousand for the nine months ended 30 September 2009. The increase was attributable to an increase in the volume of construction contracts carried out in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009.

Gross profit and gross margin

Gross profit increased by RUR 1,180,815 thousand, or 44%, to RUR 3,858,099 thousand for the nine months ended 30 September 2010, from RUR 2,677,284 thousand for nine months ended 30 September. HMS Group's gross margin decreased to 31% for the nine months ended 30 September 2010, from 38% for the nine months ended 30 September 2009, primarily as a result of an increase in revenues from construction contracts, which involved the procurement of materials, equipment and services on behalf of customers, at a lower margin than HMS Group's core product lines. In addition, lower pricing of HMS Group's modular equipment in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009, reduced HMS Group's overall gross margin.

Distribution and transportation expenses

Distribution and transportation expenses increased by RUR 30,827 thousand, or 8.4%, to RUR 398,381 thousand for the nine months ended 30 September 2010, from RUR 367,554 thousand for the nine months ended 30 September 2009. See note 25 to the Interim Consolidated Financial Statements for a full breakdown of distribution and transportation expenses.

General and administrative expenses

General and administrative expenses increased by RUR 56,103 thousand, or 4%, to RUR 1,373,794 thousand for the nine months ended 30 September 2010, from RUR 1,317,691 thousand for the nine months ended 30 September 2009. See note 26 to the Interim Consolidated Financial Statements for a full breakdown of general and administrative expenses.

Impairment of goodwill

HMS Group identified and recognised an impairment loss of RUR 116,998 thousand for the nine months ended 30 September 2009 in relation to SKMN and RVKP reflected in the statement of comprehensive income, as a result of the impact of the global economic crisis.

Finance income

Finance income increased by RUR 1,313 thousand, or 2.6%, to RUR 51,903 thousand for the nine months ended 30 September 2010, from RUR 49,780 thousand for the nine months ended 30 September 2009. This increase was attributable primarily to an increase in HMS Group's cash deposits, although this was offset by a decrease in the average interest rate that HMS Group received in respect of its cash deposits.

Finance costs

Finance costs increased by RUR 9,885 thousand, or 1.5%, to RUR 668,200 thousand for the nine months ended 30 September 2010, from RUR 658,315 thousand for the nine months ended 30 September 2009 despite a decrease in the weighted average interest rate payable on HMS Group's debt. Finance costs increased as a result of higher average indebtedness over the nine months ended 30 September 2010 as a result of drawing down a loan in connection with the acquisition of GTNG. In addition, HMS Group paid an arrangement fee in respect of this loan and a fee for the early repayment of this loan and an additional arrangement fee for the drawdown of a long-term loan.

Share of results of associates

Share of results of associates decreased by RUR 13,649 thousand, or 60%, to RUR 9,271 thousand for the nine months ended 30 September 2010, from RUR 22,920 thousand for the nine months ended 30 September 2009. This decrease was primarily attributable to a reduction in the profitability of the Group's associate companies and the consolidation of SibNA into HMS Group in the second half of 2009.

Income tax expense

Income tax expense, which comprises current tax and deferred tax, increased by RUR 191,799 thousand, or 140%, to RUR 329,131 thousand for the nine months ended 30 September 2010, from RUR 137,332 thousand for the nine months ended 30 September 2009. This increase was principally attributable to the increase in profitability.

	Nine months ended 30 September			
	2009		**2010**	
	RUR thousands	**% of revenue**	**RUR thousands**	**% of revenue**
Current tax	252,666	2.6%	186,462	1.1%
Deferred tax	(115,334)	(1.2)%	142,669	0.9%
Total income tax charge	**137,332**	**1.4%**	**329,131**	**2.0%**

Profit for the period

For the reasons explained above, profit for the period increased by RUR 1,033,406 thousand to RUR 1,095,007 thousand for the nine months ended 30 September 2010, from RUR 61,601 thousand for the nine months ended 30 September 2009, which is attributable to a significant increase in operating profit and stable finance costs.

Other comprehensive loss

Other comprehensive loss decreased by RUR 42,865 thousand, or 41%, to a loss of RUR 60,461 thousand for the nine months ended 30 September 2010, from a loss of RUR 103,326 thousand for the nine months ended 30 September 2009, due to a decrease in currency translation differences, as a result of greater stability of the Ukrainian Hriyvna and the Belorussian Rouble relative to the Rouble in 2010.

Total comprehensive income/(loss) for the period

For the reasons stated above, total comprehensive income increased by RUR 1,076,271 thousand, to RUR 1,034,546 thousand for the nine months ended 30 September 2010, from a total comprehensive loss of RUR 41,725 thousand for the nine months ended 30 September 2009.

Segment revenue and Adjusted EBITDA

The tables below sets forth HMS Group's revenue and Adjusted EBITDA by segment for the periods indicated prepared based on HMS Group's IFRS accounting records, which are the basis of HMS Group's reviewed interim IFRS financial statements. See—"*Basis of Preparation of the Consolidated Financial Statements*". For a discussion of segment information prepared under IFRS 8 *Operating Segments*, see Note 32 to the Interim Financial Statements.

	Nine months ended	
	2009	2010
	RUR thousands	RUR thousands
Revenue		
Industrial pumps[1]	4,503,945	7,601,467
Modular equipment[2]	3,419,638	4,066,260
EPC[3]	1,849,237	4,393,229
Other[4]	477,252	553,823
Revenue	10,250,072	16,614,779
Less eliminations for intersegment transactions	(475,032)	(457,058)
Revenue (external)	**9,775,040**	**16,157,721**

(1) Includes RUR 75,563 thousand and RUR 26,506 thousand of intersegment revenue in the nine months ended 30 September 2009 and 2010, respectively.

(2) Includes RUR 2,687 thousand and RUR 9,891 thousand of intersegment revenue in the nine months ended 30 September 2009 and 2010, respectively.

(3) Includes RUR 924 thousand of intersegment revenue in the nine months ended 30 September 2010.

(4) Includes RUR 396,782 thousand and RUR 419,737 thousand of intersegment revenue in the nine months ended 30 September 2009 and 2010, respectively.

	Nine months ended			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Adjusted EBITDA				
Industrial pumps	667,623	15%[1]	1,501,760	20%[1]
Modular equipment	704,594	21%[1]	422,258	10%[1]
EPC	(4,186)	0%[1]	262,251	6%[1]
Other	37,464	8%[1]	81,602	15%[1]
Less eliminations for intersegment transactions	15,861		(16,460)	
Adjusted EBITDA	**1,421,356**	**15%[2]**	**2,251,411**	**14%[2]**

(1) Adjusted EBITDA as a percentage of revenue for the relevant segment, in each case, before intersegment eliminations.

(2) Total Adjusted EBITDA as a percentage of total revenue, in each case, after intersegment eliminations.

Adjusted EBITDA for HMS Group increased by RUR 830,055 thousand, or 59%, to RUR 2,251,411 thousand for the nine months ended 30 September 2010, from RUR 1,421,356 thousand for the nine months ended 30 September 2009.

Industrial pumps

Revenue based on IFRS accounting records which are the basis of HMS Group's reviewed financial statements for the relevant period, prepared in accordance with IFRS, in the industrial pumps segment increased by RUR 3,097,522 thousand, or 69% to RUR 7,601,467 thousand for the nine months ended 30 September 2010, from RUR 4,503,945 thousand for the nine months ended 30 September 2009. Adjusted EBITDA in the industrial pumps segment increased by RUR 834,137 thousand to RUR 1,501,760 thousand for the nine months ended 30 September 2010, from RUR 667,623 thousand for the nine months ended 30 September 2009. As described in "—*Revenue*" above, HMS Group increased sales of higher margin customised pumps and integrated solutions, which are higher margin than standard pumps. In particular, the increase in revenue and Adjusted EBITDA of the industrial pumps segment was primarily associated with the performance of the ESPO contracts.

Modular equipment

Revenue based on IFRS accounting records which are the basis of HMS Group's reviewed financial statements for the relevant period, prepared in accordance with IFRS, in the modular segment increased by RUR 646,622 thousand, or 19% to RUR 4,066,260 thousand for the nine months ended 30 September 2010, from RUR 3,419,638 thousand for the nine months ended 30 September 2009. Adjusted EBITDA in the modular equipment segment decreased by RUR 282,336 thousand, or 40%, to RUR 422,258 thousand for the nine months ended 30 September 2010, from RUR 704,594 thousand for the nine months ended 30 September 2009. As described in "—*Revenue*" above, the average selling prices of HMS Group's modular equipment decreased in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009, resulting in reduced Adjusted EBITDA for the modular equipment segment.

EPC

Revenue based on IFRS accounting records which are the basis of HMS Group's reviewed financial statements for the relevant period, prepared in accordance with IFRS, in the EPC segment increased by RUR 2,543,992 thousand, to RUR 4,393,229 thousand for the nine months ended 30 September 2010, from RUR 1,849,237 thousand for the nine months ended 30 September 2009. Adjusted EBITDA in the EPC segment increased to RUR 262,251 thousand for the nine months ended 30 September 2010 from the loss of RUR 4,186 thousand for the nine months ended 30 September 2009. As described in "—*Revenue*" above, the Group increased its revenues from construction contracts significantly in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009, leading to an increase in the Adjusted EBITDA of the EPC segment. In addition, the results of GTNG were consolidated into HMS Group's results from the date of its acquisition.

HMS Group Results of Operations for the year ended 31 December 2009 compared to year ended 31 December 2008

The following table sets forth HMS Group's consolidated statement of comprehensive income for the years ended 31 December 2008 and 2009.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue	14,046,245	100.0%	14,772,269	100.0%
Cost of sales	(10,772,689)	(76.7)%	(11,164,202)	(75.6)%
Gross profit	**3,273,556**	**23.3%**	**3,608,067**	**24.4%**
Distribution and transportation expenses	(517,493)	(3.7)%	(482,576)	(3.3)%
Excess of fair value of net assets acquired over the cost of acquisition	33,958	0.2%	—	—
General and administrative expenses	(1,653,383)	(11.8)%	(1,826,419)	(12.4)%
Impairment of goodwill	—	—	(116,998)	(0.8)%
Other operating expenses (net)	(190,187)	(1.4)%	(97,636)	(0.7)%
Operating profit	**946,451**	**6.7%**	**1,084,438**	**7.3%**
Finance income	26,450	0.2%	58,424	0.4%
Finance costs	(488,369)	(3.5)%	(865,140)	(5.9)%
Share of results of associates	49,444	0.4%	17,193	0.1%
Profit before income tax	**533,976**	**3.8%**	**294,915**	**2.0%**
Income tax expense	(204,415)	(1.5)%	(211,765)	(1.4)%
Profit for the year	**329,561**	**2.3%**	**83,150**	**0.6%**
Profit for the year allocated as follows:				
Entitlement of participants in respect of their interest in HMS Group	(281,927)	(2.0)%	—	—
Remainder, being entitlement of equity and minority holders	**47,634**	**0.3%**	**83,150**	**0.6%**
Other comprehensive income				
Currency translation differences	(74,103)	(0.5)%	(70,502)	(0.5)%
Change in cumulative currency translation reserve attributable to participants of the Company	4,462	0.0%	—	—
Revaluation gain	37,035	0.3%	—	—
Currency translation differences of associates	(31,340)	(0.3)%	1,283	0.0%
Other comprehensive loss for the year	**(63,946)**	**(0.5)%**	**(69,219)**	**(0.5)%**
Total comprehensive income/(loss) for the year	**(16,312)**	**(0.1)%**	**13,931**	**0.1%**

Revenue

HMS Group's consolidated revenues increased by RUR 726,024 thousand, or 5%, to RUR 14,772,269 thousand for the year ended 31 December 2009, from RUR 14,046,245 thousand for the year ended 31 December 2008. This increase was attributable primarily to increased revenues from the sales of pumps and spare parts and to an increase in the volume of integrated solutions contracts.

The table below sets forth HMS Group's revenues in the periods indicated.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Sales of pumps and spare parts	4,786,136	34.1%	5,947,107	40.3%
Revenue from construction contracts	4,825,847	34.4%	4,182,873	28.3%
Sales of modular equipment	3,312,964	23.6%	3,391,206	23.0%
Sales of repair services for oil field equipment	790,553	5.6%	704,600	4.8%
Sales of electric motors	280,726	2.0%	151,327	1.0%
Sales of products, work and services of auxiliary units	87,839	0.6%	43,763	0.3%
Sales of special equipment	(597,750)	(4.3)%	—	—
Sales of other services and goods	559,930	4.0%	351,393	2.4%
Total	**14,046,245**	**100.0%**	**14,772,269**	**100.0%**

Revenues from the sale of pumps and spare parts increased by RUR 1,160,971 thousand, or 24%, to RUR 5,947,107 thousand for the year ended 31 December 2009, from RUR 4,786,136 thousand for the year ended 31 December 2008 due to an increase in production and sales volumes. This was driven primarily by HMS Group's integrated solutions contract with Transneft for the supply of pumps and spare parts for work carried out on existing pipelines. In addition, HMS Group began to supply pumps to Rosatom for the overhaul of existing nuclear power stations in Russia.

Revenues from construction contracts decreased by RUR 642,974 thousand, or 13%, to RUR 4,182,873 thousand for the year ended 31 December 2009, from RUR 4,825,847 thousand for the year ended 31 December 2008. This decrease was primarily attributable to a reduction in the levels of capital expenditure by HMS Group's customers and the suspension of certain construction projects as a consequence of the global economic downturn, which began in late 2008 and continued throughout 2009.

Revenues from the sale of modular equipment increased by RUR 78,242 thousand, or 2%, to RUR 3,391,206 thousand for the year ended 31 December 2009, from RUR 3,312,964 thousand for the year ended 31 December 2008. This increase was principally attributable to HMS Group's integrated solutions contract for the supply of "super-modular block" pumping stations for the Vankor oil field development.

Revenues from the sale of repair services for oil field equipment decreased by RUR 85,953 thousand, or 11%, to RUR 704,600 thousand for the year ended 31 December 2009, from RUR 790,553 thousand for the year ended 31 December 2008. The decrease was attributable to cost reduction measures implemented by HMS Group's customers in response to the global economic downturn.

The reversal of revenue of RUR 597,750 thousand in respect of the sale of special equipment comprised the return in 2008 of equipment that HMS Group had purchased in 2007 from a third party and resold to the Iraqi Water Ministry in 2007. The Iraqi Water Ministry returned the equipment in 2008 as it was not fit for purpose. HMS Group then returned the equipment to the third party from which it had purchased it, reducing revenues in 2008. HMS Group was reimbursed the cost of the purchase by the third party. See "—*Cost of sales*".

Cost of sales

HMS Group's cost of sales increased by RUR 391,513 thousand, or 4%, to RUR 11,164,202 thousand for the year ended 31 December 2009, from RUR 10,772,689 thousand for the year ended 31 December 2008, driven principally by higher costs of supplies and raw materials, increased cost of goods sold as a result of higher revenues from integrated solutions contracts and increased production and sales volumes of pumps and spare parts. As a percentage of revenues, cost of sales decreased to 75.6% for the year ended 31 December 2009, from 76.7% for the year ended 31 December 2008, principally attributable to lower construction and installation works of subcontractors costs, as a result of lower construction activity in

2009, as compared to 2008 and lower labour costs, which were partially offset by higher cost of goods sold and supplies and raw materials.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Supplies and raw materials	5,533,731	39.4%	6,186,920	41.9%
Labour costs	1,974,701	14.1%	1,798,137	12.2%
Cost of goods sold	1,365,668	9.7%	1,721,021	11.7%
Construction and installation works of subcontractors	971,905	6.9%	430,258	2.9%
Depreciation and amortisation	256,542	1.8%	259,435	1.8%
Utilities	142,926	1.0%	168,019	1.1%
Inventory impairment provision	56,993	0.4%	95,949	0.6%
Warranty provision	12,455	0.1%	18,150	0.1%
Impairment of property, plant and equipment and intangible assets	—	—	13,848	0.1%
Change in work in progress and finished goods	(268,542)	(1.9)%	(44,516)	(0.3)%
Other expenses	726,310	5.2%	516,981	3.5%
Total	**10,772,689**	**76.7%**	**11,164,202**	**75.6%**

Supplies and raw materials represented the largest portion of HMS Group's cost of sales, representing 55% of the total cost of sales for the year ended 31 December 2009 and 51% of the total cost of sales for the year ended 31 December 2008. Supplies and raw materials costs increased by RUR 653,189 thousand, or 12%, to RUR 6,186,920 thousand for the year ended 31 December 2009, from RUR 5,533,731 thousand for the year ended 31 December 2008. The increase in supplies and raw materials costs was principally attributable to increased production volumes of pumps and spare parts in 2009, as compared to 2008. The increase in volumes, however, was partially offset by lower average selling prices of ferrous metals, the key raw materials for HMS Group, in 2009.

Labour costs decreased by RUR 176,564 thousand, or 9%, to RUR 1,798,137 thousand for the year ended 31 December 2009, from RUR 1,974,701 thousand for the year ended 31 December 2008. This decrease was primarily due to reductions in the number and average salaries of production employees in 2009 as part of a cost reduction programme in response to the global economic downturn.

Cost of goods sold increased by RUR 355,353 thousand, or 26%, to RUR 1,721,021 thousand for the year ended 31 December 2009, from RUR 1,365,668 thousand for the year ended 31 December 2008. Excluding the one-off effect of a reduction of cost of goods sold in 2008 due to a reimbursement by a third party supplier of RUR 567,566 thousand for the returned equipment, cost of goods sold in 2008 would have been RUR 1,933,234 thousand and the related change in cost of goods sold would have been a decrease of RUR 212,213 thousand. This effective decrease was attributable to a decrease in the volume of products procured by HMS Group from third parties on behalf of customers in 2009, as compared to 2008.

Cost of construction and installation works of subcontractors decreased by RUR 541,647 thousand, or 56%, from RUR 971,905 thousand for the year ended 31 December 2008 to RUR 430,258 thousand for the year ended 31 December 2009. The reduction was attributable to decreasing volumes of sales under, and the number of, HMS Group's construction contracts for which HMS Group engaged third party subcontractors as a result of lower overall construction activity.

Gross profit and gross margin

Gross profit increased by RUR 334,511 thousand, or 10%, to RUR 3,608,067 thousand for the year ended 31 December 2009, from RUR 3,273,556 thousand for the year ended 31 December 2008. As a percentage of revenues, cost of sales decreased to 75.6% for the year ended 31 December 2009, from 76.7% for the year ended 31 December 2008. As a result, HMS Group's gross margin increased to 24.4% for the year ended 31 December 2009, from 23.3% for the year ended 31 December 2008. This increase was primarily due to a change in HMS Group's product mix, selling a greater proportion of higher margin, integrated solutions to customers.

Distribution and transportation expenses

Distribution and transportation expenses decreased by RUR 34,917 thousand, or 7%, to RUR 482,576 thousand for the year ended 31 December 2009, from RUR 517,493 thousand for the year ended 31 December 2008. Transport expenses decreased by RUR 17,642 thousand, or 12%, to RUR 124,875 thousand for the year ended 31 December 2009, from RUR 142,517 thousand for the year ended 31 December 2008. This decrease was attributable primarily to a decrease in rail transport tariffs in 2009, as compared to 2008. However, labour costs increased by RUR 31,728 thousand, or 19%, to RUR 196,185 thousand for the year 31 December 2009, from RUR 164,457 thousand for the year ended 31 December 2008. This increase was attributable to the hiring of new sales and marketing personnel in furtherance of the Group's strategy to broaden its customer base and strengthen its sales function. See Note 29 to the Annual Consolidated Financial Statements for a full breakdown of distribution and transportation expenses.

General and administrative expenses

General and administrative expenses increased by RUR 173,036 thousand, or 10%, to RUR 1,826,419 thousand for the year ended 31 December 2009, from RUR 1,653,383 thousand for the year ended 31 December 2008. This increase was attributable primarily to an increase in labour costs in 2009, which increased by RUR 125,427 thousand, or 13%, to RUR 1,089,996 thousand for the year ended 31 December 2009, from RUR 964,569 thousand for the year ended 31 December 2008. This increase was attributable to an increase in the average salary of the management team and administrative staff. See note 30 to the Annual Consolidated Financial Statements for a full breakdown of general and administrative expenses.

Impairment of goodwill

HMS Group identified and recognised an impairment loss of RUR 116,998 thousand for the year ended 31 December 2009 in relation to SKMN and RVKP, reflected in the statement of comprehensive income, as a result of the impact of the global economic crisis.

Finance income

Finance income increased by RUR 31,974 thousand, or 121%, to RUR 58,424 thousand for the year ended 31 December 2009, from RUR 26,450 thousand for the year ended 31 December 2008. This increase was attributable primarily to an increase in HMS Group's cash deposits and a significant increase in Rouble interest rates on cash deposits in Russia in 2009.

Finance costs

Finance costs increased by RUR 376,771 thousand, or 77%, to RUR 865,140 thousand for the year ended 31 December 2009, from RUR 488,369 thousand for the year ended 31 December 2008. This increase was attributable to increases in interest rates from the fourth quarter of 2008 through 2009 and an increase in borrowings. During the global economic downturn, terms for debt financing in Russia became less favourable. In addition, in 2009, HMS Group refinanced its short-term borrowings with longer-term debt, resulting in average interest rates and finance costs that were significantly higher than the average interest rates it paid during the year ended 31 December 2008. In addition, HMS Group increased its total borrowings, which amounted to RUR 5,275,540 thousand as at 31 December 2009, as compared to RUR 4,082,709 thousand as at 31 December 2008.

Share of results of associates

Share of results of associates decreased by RUR 32,251 thousand, or 65%, to RUR 17,193 thousand for the year ended 31 December 2009, from RUR 49,444 thousand for the year ended 31 December 2008. This decrease was primarily attributable to the acquisitions of controlling stakes in RVKP and Promburvod in 2008, as a result of which the results of these companies were consolidated into HMS Group.

Income tax expense

Income tax expense, which comprises current tax and deferred tax, increased by RUR 7,350 thousand, or 4%, to RUR 211,765 thousand for the year ended 31 December 2009, from RUR 204,415 thousand for the year ended 31 December 2008. Despite a decrease in profit before income tax of RUR 239,061 thousand,

or 45%, to RUR 294,915 thousand for the year ended 31 December 2009, from RUR 533,796 thousand for the year ended 31 December 2008, income tax expense slightly increased as a result of an impairment of goodwill, which was not deductible for income tax purposes, an income tax charge as a result of intra-group sales of subsidiaries and the fact that in 2008 a deferred tax provision was released due to the change in the tax rate in Russia from 24% to 20%, effective 1 January 2009, which reduced the income tax charge in 2008.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Current tax	329,148	2.3%	270,277	1.8%
Deferred tax	(94,542)	(0.7)%	(58,512)	(0.4)%
Effect of the change in the tax rate	(30,191)	(0.2)%	—	—
Total income tax charge	**204,415**	**1.5%**	**211,765**	**1.4%**

Profit for the year

Profit for the year decreased by RUR 246,411 thousand, or 75%, to RUR 83,150 thousand for the year ended 31 December 2009, from RUR 329,561 thousand for the year ended 31 December 2008, which is primarily attributable to increased finance costs, increased general and administrative expenses and the recognition of an impairment of goodwill loss in the year ended 31 December 2009.

Entitlement of participants in respect of their interest in HMS Group

The statement of comprehensive income shows the total amounts allocated to the participants of IIGHMS, the predecessor of HMS Group, in their capacity as holders of the participatory interests of IIGHMS for the year ended 31 December 2008. See Note 3 to the Annual Consolidated Financial Statements for further information.

Other comprehensive loss

Other comprehensive loss increased by RUR 5,273 thousand, or 8.2%, from a loss of RUR 63,946 thousand for the year ended 31 December 2008, to a loss of RUR 69,219 thousand for the year ended 31 December 2009, due to currency translation differences of RUR 70,502 thousand for the year ended 31 December 2009 as a result of the depreciation of the Ukrainian Hriyvna and the Belorussian Rouble relative to the Russian Rouble in 2009.

Total comprehensive income/(loss) for the year

For the reasons stated above, total comprehensive income increased by RUR 30,243 thousand, to RUR 13,931 thousand for the year ended 31 December 2009, from a loss of RUR 16,312 thousand for the year ended 31 December 2008.

Segment revenue and Adjusted EBITDA

The tables below sets forth HMS Group's revenue and Adjusted EBITDA by segment for the periods indicated prepared based on HMS Group's IFRS accounting records, which are the basis of HMS Group's audited IFRS financial statements, See—"*Basis of Preparation of the Consolidated Financial Statements*". For a discussion of segment information prepared under IFRS 8 *Operating Segments*, see Note 36 to the Annual Financial Statements.

	Year ended 31 December	
	2008	2009
	RUR thousands	RUR thousands
Revenue		
Industrial pumps(1)	4,972,555	6,390,838
Modular equipment(2)	4,125,655	4,226,150
EPC	5,204,376	4,188,738
Other(3)	555,752	622,230
Revenue	14,858,338	15,427,956
Less eliminations for intersegment transactions	(812,093)	(655,687)
Revenue (external)	**14,046,245**	**14,772,269**

(1) Includes RUR 394,662 thousand and RUR 82,774 thousand of intersegment revenue in 2008 and 2009, respectively.

(2) Includes RUR 59,974 thousand of intersegment revenue in 2009.

(3) Includes RUR 417,431 thousand and RUR 512,939 thousand of intersegment revenue in 2008 and 2009, respectively.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Adjusted EBITDA				
Industrial pumps	822,030	17%(1)	1,011,886	16%(1)
Modular equipment	528,762	13%(1)	786,462	19%(1)
EPC	254,794	5%(1)	33,342	1%(1)
Other	68,463	12%(1)	2,866	0%(1)
Less eliminations for intersegment transactions	(30,188)	—	55,852	—
Adjusted EBITDA	**1,643,861**	**12%**(2)	**1,890,408**	**13%**(2)

(1) Adjusted EBITDA as a percentage of revenue for the relevant segment, in each case, before intersegment eliminations.

(2) Total Adjusted EBITDA as a percentage of total revenue, in each case, after intersegment eliminations.

Adjusted EBITDA for HMS Group increased by RUR 246,547 thousand, or 15%, to RUR 1,890,408 thousand for the year ended 31 December 2009, from RUR 1,643,861 thousand for the year ended 31 December 2008.

Industrial pumps

Revenue based on IFRS accounting records which are the basis of HMS Group's audited IFRS financial statements for the relevant period in the industrial pumps segment increased by RUR 1,418,283 thousand, or 29%, to RUR 6,390,838 thousand for the year ended 31 December 2009, from RUR 4,972,555 thousand for the year ended 31 December 2008. Adjusted EBITDA in the industrial pumps segment increased by RUR 189,856 thousand, or 23%, to RUR 1,011,886 thousand for the year ended 31 December 2009, from RUR 822,030 thousand for the year ended 31 December 2008, primarily as a result of sales of customised pumps to Transneft and Rosatom in 2009.

Modular equipment

Revenue based on IFRS accounting records which are the basis of HMS Group's audited IFRS financial statements for the relevant period in the modular segment increased by RUR 100,495 thousand, or 2%, to RUR 4,226,150 thousand for the year ended 31 December 2009, from RUR 4,125,655 thousand for the year ended 31 December 2008. Adjusted EBITDA in the modular equipment segment increased by RUR 257,700 thousand, or 49%, to RUR 786,462 thousand for the year ended 31 December 2009, from RUR 528,762 thousand for the year ended 31 December 2008, primarily as a result of increased sales to large scale projects, including Rosneft's Vankor oil field. In addition, the share of revenues from integrated solutions contracts increased in 2009, as compared to 2008.

EPC

Revenue based on IFRS accounting records which are the basis of HMS Group's audited IFRS financial statements for the relevant period in the EPC segment decreased by RUR 1,015,638 thousand, or 20%, to RUR 4,188,738 thousand for the year ended 31 December 2009, from RUR 5,204,376 thousand for the year ended 31 December 2008. Adjusted EBITDA in the EPC segment decreased to RUR 33,342 thousand for the year ended 31 December 2009, from RUR 254,794 thousand for the year ended 31 December 2008, principally as a result of lower demand from the Group's EPC customers due to the effects of the global economic downturn on the EPC market.

HMS Group Results of Operations for the year ended 31 December 2008 compared to year ended 31 December 2007

The following table sets forth HMS Group's consolidated statement of comprehensive income for the years ended 31 December 2007 and 2008.

	Year ended 31 December			
	2007		2008	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue	13,399,356	100.0%	14,046,245	100.0%
Cost of sales	(10,807,001)	(80.7)%	(10,772,689)	(76.7)%
Gross profit	**2,592,355**	**19.3%**	**3,273,556**	**23.3%**
Distribution and transportation expenses	(399,625)	(3.0)%	(517,493)	(3.7)%
Excess of fair value of net assets acquired over the cost of acquisition	—	—	33,958	0.2%
General and administrative expenses	(1,228,171)	(9.2)%	(1,653,383)	(11.8)%
Other operating expenses (net)	(100,772)	(0.8)%	(190,187)	(1.4)%
Operating profit	**863,787**	**6.4%**	**946,451**	**6.7%**
Finance income	35,053	0.3%	26,450	0.2%
Finance costs	(249,097)	(1.9)%	(488,369)	(3.5)%
Share of results of associates	18,129	0.1%	49,444	0.4%
Profit before income tax	**667,872**	**5.0%**	**533,976**	**3.8%**
Income tax expense	(176,690)	(1.3)%	(204,415)	(1.5)%
Profit for the year	**491,182**	**3.7%**	**329,561**	**2.3%**
Profit for the year allocated as follows:				
Entitlement of participants in respect of their interest in HMS Group	(372,430)	(2.8)%	(281,927)	(2.1)%
Remainder, being entitlement of equity and minority holders	**118,752**	**0.9%**	**47,634**	**0.3%**
Other comprehensive income				
Currency translation differences	—	—	(74,103)	(0.5)%
Change in cumulative currency translation reserve attributable to participants of the Company	(14,460)	(0.1)%	4,462	0.0%
Revaluation gain	—	—	37,035	0.3%
Currency translation differences of associates	—	—	(31,340)	(0.2)%
Other comprehensive loss for the year	**(14,460)**	**(0.1)%**	**(63,946)**	**(0.5)%**
Total comprehensive income/(loss) for the year	**104,292**	**0.8%**	**(16,312)**	**(0.1)%**

Revenue

HMS Group's consolidated revenues increased by RUR 646,889 thousand, or 5%, to RUR 14,046,245 thousand for the year ended 31 December 2008, from RUR 13,399,356 thousand for the year ended 31 December 2007. This increase was principally attributable to higher revenues from sales of

modular equipment and an increase in the amount of revenue recognised in respect of HMS Group's construction contracts in 2008, as compared to 2007.

	Year ended 31 December			
	2007		2008	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Sales of pumps and spare parts	4,499,742	33.6%	4,786,136	34.1%
Revenue from construction contracts	3,150,626	23.5%	4,825,847	34.4%
Sales of modular equipment	2,747,003	20.5%	3,312,964	23.6%
Sales of repair services for oil field equipment	753,446	5.6%	790,553	5.6%
Sales of engines	413,075	3.1%	280,726	2.0%
Sales of products, work and services of auxiliary units	182,889	1.4%	87,839	0.6%
Sales of special equipment	988,951	7.4%	(597,750)	(4.3%)
Sales of other services and goods	663,624	5.0%	559,930	4.0%
Total	**13,399,356**	**100.0%**	**14,046,245**	**100.0%**

Revenue from sales of pumps and spare parts increased by RUR 286,394 thousand, or 6%, to RUR 4,786,136 thousand for the year ended 31 December 2008, from RUR 4,499,742 thousand for the year ended 31 December 2007, principally due to increases in the prices of HMS Group's pumps.

Revenue from construction contracts increased by RUR 1,675,221 thousand, or 53%, to RUR 4,825,847 thousand for the year ended 31 December 2008, from RUR 3,150,626 thousand for the year ended 31 December 2007. This increase was attributable to the acquisition of SKMN by HMS Group. The results of operations of SKMN were not consolidated into the Annual Consolidated Financial Statements until the second half of 2007. In addition, HMS Group recognised increased revenue from its construction projects in 2008.

Revenue from sales of modular equipment increased by RUR 565,961 thousand, or 21%, to RUR 3,312,964 thousand for the year ended 31 December 2008, from RUR 2,747,003 thousand for the year ended 31 December 2007. This increase was attributable to an increase in new orders of oil field equipment, driven in particular by orders of modular equipment used in the Vankor oil field development.

Revenue from sales of special equipment were reversed by RUR 597,750 for the year ended 31 December 2008, as compared to revenues of RUR 988,951 thousand for the year ended 31 December 2007. This reversal represents the return of special equipment in 2008 that HMS Group had purchased in 2007 from a third party and resold to the Iraqi Water Ministry. The Iraqi Water Ministry returned this equipment to HMS Group in 2008 as it was not fit for purpose. HMS Group then returned the equipment to the third party from which it had purchased it and was reimbursed the cost of the purchase by the third party. See also "—*Cost of sales*".

Cost of sales

HMS Group's cost of sales decreased by RUR 34,312 thousand, or 0.3%, to RUR 10,772,689 thousand for the year ended 31 December 2008, from RUR 10,807,001 thousand for the year ended 31 December 2007. As a percentage of revenue, cost of sales decreased to 76.7% for the year ended 31 December 2008, from

80.7% for the year ended 31 December 2007. This decrease was principally attributable to a significant decrease in cost of goods sold.

	Year ended 31 December			
	2007		2008	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Supplies and raw materials	5,378,097	40.1%	5,533,731	39.3%
Labour costs	1,567,194	11.7%	1,974,701	14.1%
Cost of goods sold	2,605,599	19.4%	1,365,668	9.7%
Construction and installation works of subcontractors	470,692	3.5%	971,905	6.9%
Depreciation and amortisation	210,677	1.6%	256,542	1.8%
Utilities	122,484	0.9%	142,926	1.0%
Inventory impairment provision	48,383	0.4%	56,993	0.4%
Warranty provision	11,817	0.1%	12,455	0.1%
Change in work in progress and finished goods	(250,356)	(1.9%)	(268,542)	(1.9%)
Other expenses	642,414	4.8%	726,310	5.2%
Total	**10,807,001**	**80.7%**	**10,772,689**	**76.7%**

Supplies and raw materials costs increased by RUR 155,634 thousand, or 2.9%, to RUR 5,533,731 thousand for the year ended 31 December 2008, from RUR 5,378,097 thousand for the year ended 31 December 2007. This increase was attributable to increased production volumes of pumps and oil field equipment in 2008, as compared to 2007.

Labour costs increased by RUR 407,507 thousand, or 26%, to RUR 1,974,701 thousand for the year ended 31 December 2008, from RUR 1,567,194 thousand for the year ended 31 December 2007. This increase was primarily attributable to acquisitions made by HMS Group, which increased the Group's headcount, resulting in higher labour costs. In addition, there was an increase in the average salary as a result of a general increase in the salary level in Russia in 2008 and HMS Group's entry into a new collective bargaining agreement with its Ukrainian subsidiaries and associates, which required HMS Group to increase salary levels. Despite the global economic downturn, HMS Group endeavoured to retain the services of key production personnel and did not make significant redundancies in 2008.

Cost of goods sold decreased by RUR 1,239,931 thousand, or 48%, to RUR 1,365,668 thousand for the year ended 31 December 2008, from RUR 2,605,599 thousand for the year ended 31 December 2007. This decrease was principally attributable to the fact that costs of RUR 567,566 thousand in 2007 were attributable to the purchase by HMS Group of equipment from a third party as part of a one-off contract with the Iraqi Water Ministry in 2007. HMS Group returned this equipment to the third party and was reimbursed in the amount of RUR 567,566 thousand, reducing cost of goods sold by this amount in 2008.

Construction and installation of works of subcontractors increased by RUR 501,213 thousand, or 106%, to RUR 971,905 thousand for the year ended 31 December 2008, from RUR 470,692 thousand for the year ended 31 December 2007. This increase was principally attributable to the acquisition of SKMN by HMS Group in 2007. SKMN's results of operations were not consolidated into the Annual Consolidated Financial Statements until the second half of 2007.

Gross profit and gross margin

Gross profit increased by RUR 681,201 thousand, or 26%, to RUR 3,273,556 thousand for the year ended 31 December 2008, from RUR 2,592,355 thousand for the year ended 31 December 2007. As a percentage of revenue, cost of sales decreased to 76.7% for the year ended 31 December 2008, from 80.7% for the year ended 31 December 2007, primarily as a result of the significant decrease in cost of goods sold and a substantial increase in revenues from construction contracts as a result of the acquisition of SKMN. HMS Group's gross margin increased to 23.3% for the year ended 31 December 2008, from 19.3% for the year ended 31 December 2007. This was principally attributable to increased sales of higher margin goods, including customised pumps and pumping stations, which accounted for a larger proportion of HMS Group's revenues in 2008, as compared to 2007.

Distribution and transportation expenses

Distribution and transportation expenses increased by RUR 117,868 thousand, or 29%, to RUR 517,493 thousand for the year ended 31 December 2008, from RUR 399,625 thousand for the year

ended 31 December 2007, principally as a result of higher labour costs and transport expenses. Labour costs increased by RUR 42,375 thousand, or 35%, to RUR 164,457 thousand for the year ended 31 December 2008, from RUR 122,082 thousand for the year ended 31 December 2007 primarily due to an increase in headcount as a result of acquisitions made by HMS Group. In addition, HMS Group expanded its sales force as part of its sales strategy. A general increase in the salary level in Russia also led to higher labour costs. Transport expenses increased by RUR 26,988 thousand, or 23%, to RUR 142,517 thousand for the year ended 31 December 2008, from RUR 115,529 thousand for the year ended 31 December 2007, principally as a result of higher rail tariffs and increased sales volumes in 2008, as compared to 2007. See note 29 to the Annual Consolidated Financial Statements for a full breakdown of distribution and transportation expenses.

General and administrative expenses

General and administrative expenses increased by RUR 425,212 thousand, or 35%, to RUR 1,653,383 thousand for the year ended 31 December 2008, from RUR 1,228,171 thousand for the year ended 31 December 2008, primarily as a result of increases in labour costs, which increased by RUR 261,832 thousand, or 37%, to RUR 964,569 thousand for the year ended 31 December 2008, from RUR 702,737 thousand for the year ended 31 December 2007. This increase was principally attributable to the acquisitions made by HMS Group. In addition, a general increase in the salary level in Russia also led to higher labour costs.

Finance income

Finance income decreased by RUR 8,603 thousand, or 25%, to RUR 26,450 thousand for the year ended 31 December 2008, from RUR 35,053 thousand for the year ended 31 December 2007. This decrease was attributable primarily to lower interest rates on cash deposits in 2008, as compared to 2007. In addition, amounts of cash on deposit were lower in 2008, as compared to 2007.

Finance costs

Finance costs increased by RUR 239,272 thousand, or 96%, to RUR 488,369 thousand for the year ended 31 December 2008, from RUR 249,097 thousand for the year ended 31 December 2007. This increase was attributable to significant increases in the interest rates on Rouble borrowings, as compared to 2007 from a weighted average interest rate of 10.61% for the year ended 31 December 2007 to a weighted average interest rate of 15.44% for the year ended 31 December 2008. In addition, total borrowings increased during the year ended 31 December 2008 and amounted to RUR 4,082,709 thousand as at 31 December 2008, as compared to RUR 2,951,483 thousand as at 31 December 2007 See "—*Indebtedness*".

Share of results of associates

Share of results of associates increased by RUR 31,315 thousand, or 173%, to RUR 49,444 thousand for the year ended 31 December 2008, from RUR 18,129 thousand for the year ended 31 December 2007. This increase was primarily attributable to the acquisition by HMS Group of interests in Promburvod in August 2007 and DGKhM in September 2007.

Income tax expense

Income tax expense increased by RUR 27,725 thousand, or 16%, to RUR 204,415 thousand for the year ended 31 December 2008, from RUR 176,690 thousand for the year ended 31 December 2007 despite lower profitability in 2008, as a result of higher non-deductible social expenses and significantly higher other non-deductible expenses. The increase in income tax expense was partially offset by a reduction in the tax rate in Russia from 24% to 20% with effect from 1 January 2009, resulting in a release in the deferred tax provision and a corresponding reduction in income tax of RUR 30,191 thousand for the year ended 31 December 2008.

	Year ended 31 December			
	2007		2008	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Current tax	324,654	2.4%	329,148	2.3%
Deferred tax	(147,964)	(1.1%)	(94,542)	(0.7%)
Effect of the change in the tax rate	—	—	(30,191)	(0.1%)
Total income tax charge	**176,690**	**1.3%**	**204,415**	**1.5%**

Profit for the year

Profit for the year decreased by RUR 161,621 thousand, or 33%, to RUR 329,561 thousand for the year ended 31 December 2008, from RUR 491,182 thousand for the year ended 31 December 2007. This decrease was principally attributable to higher finance costs in 2008 as a result of higher overall borrowings and higher average interest rates in 2008, as compared to 2007.

Entitlement of participants in respect of their interest in HMS Group

The statements of comprehensive income for the years ended 31 December 2007 and 2008 shows the total amounts allocated to the participants of IIGHMS in their capacity as holders of the participatory interests in IIGHMS. See Note 3 to the Consolidated Financial Statements for further information.

Other comprehensive loss

Other comprehensive income decreased by RUR 49,486 thousand, or 342%, to a loss of RUR 63,946 thousand for the year ended 31 December 2008, from a loss of RUR 14,460 thousand for the year ended 31 December 2007. This was attributable to a currency translation differences loss of RUR 74,103 thousand in the year ended 31 December 2008 as a result of fluctuations in the value of the Ukrainian Hriyvna and the Belorussian Rouble relative to the Russian Rouble, although this was offset by a revaluation gain of RUR 37,035 thousand resulting from a fair value adjustment to the assets and liabilities in the previously held interest of Promburvod following its acquisition in December 2008.

Total comprehensive income/(loss) for the year

Total comprehensive income decreased by RUR 120,604 thousand, to a loss of RUR 16,312 thousand for the year ended 31 December 2008, from RUR 104,292 thousand for the year ended 31 December 2007 due to a combination of higher finance costs, currency translation differences and higher income tax expense in the year ended 31 December 2008.

Segment revenue and Adjusted EBITDA

The table below sets forth HMS Group's revenue and Adjusted EBITDA by segment for the periods indicated prepared based on HMS Group's IFRS accounting records, which are the basis of HMS Group's audited IFRS financial statements. See—"*Basis of Preparation of the Consolidated Financial Statements and Financial Information*". For a discussion of segment information prepared under IFRS 8 *Operating Segments*, see Note 36 to the Annual Financial Statements.

	Year ended 31 December RUR thousands	
	2007	2008
Revenue		
Industrial pumps[1]	6,203,337	4,972,555
Modular equipment	3,534,223	4,125,655
EPC	3,614,097	5,204,376
Other[2]	243,768	555,752
Revenue	13,595,425	14,858,338
Less eliminations for intersegment transactions	(196,069)	(812,093)
Revenue (external)	13,399,356	14,046,245

(1) Includes RUR 14,298 thousand and RUR 394,662 thousand of intersegment revenue in 2007 and 2008, respectively.

(2) Includes RUR 181, 771 thousand and RUR 417,431 thousand of intersegment revenue in 2007 and 2008, respectively.

	Year ended 31 December			
	2007		2008	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Adjusted EBITDA				
Industrial pumps	685,861	11%[1]	822,030	17%[1]
Modular equipment	501,103	14%[1]	528,762	13%[1]
EPC	248,738	7%[1]	254,794	5%[1]
Other	(10,511)	4%[1]	68,463	12%[1]
Less eliminations for intersegment transactions	(2,023)	—	(30,188)	—
Adjusted EBITDA	**1,423,168**	**11%[2]**	**1,643,861**	**12%[2]**

(1) Adjusted EBITDA as a percentage of revenue for the relevant segment, in each case, before intersegment eliminations.

(2) Total Adjusted EBITDA as a percentage of total revenue, in each case, after intersegment eliminations.

Adjusted EBITDA for HMS Group increased by RUR 220,693 thousand, or 16%, to RUR 1,643,861 thousand for the year ended 31 December 2008, from RUR 1,423,168 thousand for the year ended 31 December 2007.

Industrial Pumps

Revenue based on IFRS accounting records which are the basis of HMS Group's audited IFRS financial statements for the relevant period in the industrial pumps segment decreased by RUR 1,230,782 thousand, or 20%, to RUR 4,972,555 thousand for the year ended 31 December 2008, from RUR 6,203,337 thousand for the year ended 31 December 2007. Despite decreased overall segment revenues, Adjusted EBITDA in the industrial pumps segment increased by RUR 136,169 thousand, or 20%, to RUR 822,030 thousand for the year ended 31 December 2008, from RUR 685,861 thousand for the year ended 31 December 2007 as a result of increased sales of higher margin customised pumps under integrated solutions contracts.

Modular equipment

Revenue based on IFRS accounting records which are the basis of HMS Group's audited IFRS financial statements for the relevant period in the modular equipment segment increased by RUR 591,432 thousand, or 17%, to RUR 4,125,655 thousand for the year ended 31 December 2008, from RUR 3,534,223 thousand for the year ended 31 December 2007. Adjusted EBITDA in the modular equipment segment increased by RUR 27,659 thousand, or 6%, to RUR 528,762 thousand for the year ended 31 December 2008, from RUR 501,103 thousand for the year ended 31 December 2007 as a result of an increase in the number of large-scale projects and a growing share of revenues attributable to integrated solutions contracts.

EPC

Revenue based on IFRS accounting records which are the basis of HMS Group's audited IFRS financial statements for the relevant period in the EPC business unit increased by RUR 1,590,279 thousand, or 44%, to RUR 5,204,376 thousand for the year ended 31 December 2008, from RUR 3,614,097 thousand for the year ended 31 December 2007. Adjusted EBITDA in the EPC segment increased by RUR 6,056 thousand to RUR 254,794 thousand for the year ended 31 December 2008, from RUR 248,738 thousand for the year ended 31 December 2007. However, HMS Group's EPC business unit was negatively affected by the onset of the financial crisis in Russia in the fourth quarter of 2008 as construction projects were put on hold or cancelled.

Liquidity and Capital Resources

The Group relies on and has historically relied on cash flow from operating activities and external financing to fund its working capital and long-term capital requirements. The Group's future liquidity requirements, including those to fund acquisitions, implement capital expenditures or repay debt, are expected to be financed through a combination of cash flows from operating activities and external sources of financing, such as capital markets and bank financing, as well as the proceeds of the Offering.

The table below sets forth HMS Group's working capital as at the dates indicated.

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RUR thousands			
Current assets				
Inventories	1,852,958	2,432,504	3,179,644	3,259,431
Trade and other receivables	3,869,094	3,027,888	2,875,755	11,006,986
Current income tax receivable	29,212	46,516	57,974	75,742
Prepaid expenses	23,024	26,422	35,104	44,730
Cash and cash equivalents	377,203	669,482	757,661	1,897,817
Restricted cash	890	620	905	3,768
Non-current assets held for sale	—	—	—	96,255
Total	**6,152,381**	**6,203,432**	**6,907,043**	**16,384,729**
Current liabilities				
Trade and other payables	3,748,655	3,238,859	3,255,490	12,934,083
Short-term borrowings	2,898,852	4,081,922	1,878,774	941,694
Provisions for liabilities and charges	122,254	199,336	209,746	224,169
Finance lease liability	22,816	19,776	13,094	11,053
Pension liability	11,676	17,242	20,922	9,492
Current income tax payable	23,593	22,419	25,069	47,228
Other taxes payable	181,669	320,094	293,264	1,403,894
Total	**7,009,515**	**7,899,648**	**5,696,359**	**15,571,613**
Net current assets/(liabilities)	**(857,134)**	**(1,696,216)**	**1,210,684**	**813,116**
Net working capital	**1,973,397**	**2,221,533**	**2,799,909**	**1,332,334**

HMS Group defines working capital as inventories and trade and other receivables less trade and other payables.

As at 30 September 2010, HMS Group had positive working capital of RUR 1,332,334 thousand, representing a decrease of RUR 1,467,575 thousand from HMS Group's working capital position of RUR 2,799,909 thousand as at 31 December 2009. The decrease is mainly associated with settlements in relation to the ESPO pipeline projects. Cash received as advance payments from Transneft was partially used for advance payments to the Group's suppliers and subcontractors and repayment of loans and was partially deposited in bank accounts.

As at 31 December 2009, HMS Group had working capital of RUR 2,799,909 thousand, representing an increase of RUR 578,376 thousand, or 26%, from RUR 2,221,533 thousand as at 31 December 2008. This increase was principally attributable to an increase in inventories of RUR 747,140 thousand, or 31%, to RUR 3,179,644 thousand as at 31 December 2009, from RUR 2,432,504 thousand as at 31 December 2008. This increase was the result of remaining stock relating to the implementation of two major contracts in 2009, the Komsomolskoye oil field development and the construction of water infrastructure in Turkmenistan. See "*Business—Integrated Solutions*". This increase in inventories was partially offset by a decrease in trade and other receivables of RUR 152,133 thousand, or 5%, to RUR 2,875,755 thousand as at 31 December 2009, from RUR 3,027,888 thousand as at 31 December 2008. This decrease was due to a number of factors, including lower receivables due from customers for construction work in progress as a result of lower volumes of construction work and lower advances to suppliers, since HMS Group was able to negotiate more favourable terms with its suppliers in 2009, as compared to 2008.

As at 31 December 2008, HMS Group had working capital of RUR 2,221,533 thousand, representing an increase of RUR 248,136 thousand, or 13%, from RUR 1,973,397 thousand as at 31 December 2007. This increase was a result of lower trade and other payables, which decreased by RUR 509,796 thousand, or 14%, to RUR 3,238,859 thousand as at 31 December 2008, from RUR 3,748,655 thousand as at 31 December 2007. This decrease was primarily driven by a significant decrease in trade payables, which decreased by RUR 1,190,374 thousand, or 56%, to RUR 947,258 thousand as at 31 December 2008, from RUR 2,137,632 thousand as at 31 December 2007, as a result of the return of equipment by the Iraqi Water Ministry. However, this decrease in trade payables was offset by an increase in advances from customers, which increased by RUR 794,133 thousand, or 69%, to RUR 1,938,074 thousand as at 31 December 2008, from RUR 1,143,941 thousand for the year ended 31 December 2007 due to stricter contract terms imposed on HMS Group's customers following the onset of the economic downturn in Russia.

In addition, inventories increased by RUR 579,546 thousand, or 31%, to RUR 2,432,504 thousand as at 31 December 2008, from RUR 1,852,958 thousand as at 31 December 2007. This increase was attributable to significant increases in materials prices in 2008 and a contract with Rosneft, as a result of which HMS Group increased its inventories in order to prepare for the commencement of the project. In addition, HMS Group established reserves of key materials in order to protect itself against price increases and to obtain discounts on larger order volumes. The increase in inventories was, however, offset by a decrease in total trade and other receivables of RUR 841,206 thousand, or 22%, to RUR 3,027,888 thousand as at 31 December 2008, from RUR 3,869,094 thousand as at 31 December 2007. This decrease was principally attributable to a decrease in trade receivables as a result of the one-off contract with the Iraqi Water Ministry in 2007 for the supply of equipment, payment of which remained outstanding as at 31 December 2007. In addition, advances to suppliers decreased, primarily due to HMS Group's stockpiling of key supplies and raw materials in response to rising prices in the first half of 2008.

Capital expenditures

HMS Group primarily incurs capital expenditures for equipment for improving the efficiency of HMS Group's production processes, equipment for undertaking large-scale projects, machinery required for the manufacture of new products and replacement of equipment. For the years ended 31 December 2007, 2008 and 2009, the Group's capital expenditures amounted to RUR 489,986 thousand, RUR 656,237 thousand and RUR 316,098 thousand, respectively and for the nine months ended 30 September 2009 and 2010, amounted to RUR 226,779 thousand and RUR 585,571 thousand, respectively.

HMS Group estimates that capital expenditures for the fourth quarter of 2010 amounted to approximately RUR 129,000 thousand and it estimates that its capital expenditures for 2011 will amount to approximately RUR 1,000,000 thousand, excluding acquisitions. These investments will focus on improvement of the current production facilities and investment in high-value equipment for use in large-scale projects.

Acquisitions

The Group expects that acquisitions will continue to be a key part of its growth strategy. At present, the Group intends to make selective, value-enhancing acquisitions, targeting businesses that offer complementary products, provide the opportunity to expand into high-growth markets and regions and improve the Group's core competencies, including its R&D capabilities. HMS Group has an option to acquire 11.0% of the voting shares of its associate, DGKhM, in 2012.

Cash requirements relating to potential acquisitions may vary significantly depending on the opportunities identified.

Dividends

The Board of Directors has not yet made any recommendation as to any payment of cash dividends in respect of the year ended 31 December 2010. See "*Dividend Policy*".

Prepayment and repayment of debt

The Company intends to use its share of the net proceeds of the Offering to repay or prepay, as the case may be, outstanding indebtedness of the Group in the amount of approximately RUR 3.3 billion, assuming no exercise of the Over-allotment Option, or RUR 4.0 billion of its outstanding indebtedness, assuming exercise of the Over-allotment Option in full and, to the extent that any net proceeds remain after payment of the foregoing, for general corporate purposes. See "*Use of Proceeds*".

Contractual obligations

HMS Group has various contractual obligations and commercial commitments to make future payments, including debt obligations, lease obligations and certain committed obligations. The table below

summarises HMS Group's future obligations under these contracts due by the periods indicated as at 30 September 2010.

Payments due by period	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
			RUR thousands		
Contractual obligations					
Bank loans	6,231,992	1,418,734	2,143,889	2,669,369	—
Other loans	2,681	—	2,681	—	—
Finance lease liabilities	12,727	12,375	352	—	—
Trade payables	2,133,860	2,133,860	—	—	—
Other payables	144,157	144,157	—	—	—
Total	**8,525,417**	**3,709,126**	**2,146,922**	**2,669,369**	**—**

Capital resources

In the nine months ended 30 September 2010, HMS Group's primary sources of funding were operating cash flows. For the year ended 31 December 2009, HMS Group's primary source of funding was net proceeds from borrowings (RUR 1,204,277 thousand). The Group plans to continue to finance its funding requirements through a mix of operating cash flow and financing activities, including the capital markets and future borrowings.

Available credit facilities

HMS Group has maintained committed lines of credit facilities for drawdown to meet short- and medium-term financing needs. As at 31 December 2009 and 30 September 2010, the amounts available for withdrawal totalled RUR 1,065,174 thousand and RUR 1,657,221 thousand, respectively.

As at 31 December 2009 and 30 September 2010, interest on undrawn facilities would have been payable at a weighted average interest rate of 14.7% per annum and 9.6% per annum, respectively.

Cash flows

The following table sets forth HMS Group's consolidated cash flows for the years ended 31 December 2007, 2008 and 2009 and for the nine months ended 30 September 2009 and 2010.

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
			RUR thousands		
Net cash (used in)/from operating activities	438,112	732,752	(211,136)	(116,706)	3,943,696
Net cash used in investing activities	(1,516,526)	(1,125,393)	(509,589)	(625,806)	(2,708,046)
Net cash (used in)/from financing activities	1,313,235	694,611	815,498	616,657	(94,920)
Net increase/(decrease) in cash and cash equivalents	**234,821**	**301,970**	**94,773**	**(125,855)**	**1,140,730**

Nine months ended 30 September 2010, compared to nine months ended 30 September 2009

Net cash from operating activities amounted to RUR 3,943,696 thousand for the nine-month period ended 30 September 2010, as compared to net cash used in operating activities amounting to RUR (116,706) thousand for the nine months ended 30 September 2009 due to a significant increase in profit before income tax. In addition, there was a significant increase in accounts payable, without a proportionate increase in trade and other receivables, as a result of an increase in advances from customers in relation to large-scale projects, primarily the ESPO projects.

Net cash used in investing activities increased to RUR 2,708,046 thousand for the nine-month period ended 30 September 2010, from RUR 625,806 thousand for the nine months ended 30 September 2009 due to the acquisitions of subsidiaries, principally the acquisition of GTNG in June 2010, which accounted for RUR 2,339,457 thousand of total net cash used in investing activities during the nine months ended 30 September 2010. In addition, purchases of property, plant and equipment in the nine months ended 30 September 2010 increased, as compared to the nine months ended 30 September 2009.

Net cash used in financing activities amounted to RUR 94,920 thousand for the nine-month period ended 30 September 2010, as compared to net cash from financing activities of RUR 616,657 thousand for the nine months ended 30 September 2009 due to significant repayments of borrowings, the acquisition of non-controlling interests in subsidiaries and dividends paid to non-controlling shareholders of subsidiaries in the nine months ended 30 September 2010. This was partially offset by cash received following a share issue by SKMN, one of its subsidiaries.

Year ended 31 December 2009, compared to year ended 31 December 2008

Net cash used in operating activities was RUR 211,136 thousand for the year ended 31 December 2009, as compared to net cash from operating activities in the amount of RUR 732,752 thousand for the year ended 31 December 2008 as a result of a decrease in profit before income tax and a reduction in working capital, caused by an increase in inventories in 2009.

Net cash used in investing activities decreased to RUR 509,589 thousand for the year ended 31 December 2009, from RUR 1,125,393 thousand for the year ended 31 December 2008 as a result of a significant decrease in the purchase of property plant and equipment in 2009, as compared to 2008. In addition, HMS Group made no prepayments for business combinations in 2009, as compared to 2008, when HMS Group prepaid RUR 162,814 thousand. See "*—Capital Expenditures*".

Net cash from financing activities increased to RUR 815,498 thousand for the year ended 31 December 2009, from RUR 694,611 thousand for the year ended 31 December 2008 as a result of higher net borrowing and financing of working capital in 2009, as compared to 2008 and lower payments of dividends to minority shareholders of subsidiaries. This was partially offset by an increase in cash used in the acquisition of non-controlling interests in subsidiaries in 2009, as compared to 2008.

Year ended 31 December 2008, compared to year ended 31 December 2007

Net cash from operating activities increased to RUR 732,752 thousand for the year ended 31 December 2008, from RUR 438,112 thousand for the year ended 31 December 2007, principally as a result of a decrease in trade and other receivables in 2008, as compared to 2007 and an increase in taxes payable. This was offset by a decrease in accounts payable and a larger increase in inventories in 2008, as compared to 2007. Trade payables were significantly higher in 2007 because of the return by the Iraqi Water Ministry of equipment that HMS Group had purchased from a third party and sold to the Iraqi Water Ministry. This was partially offset by increases in income tax paid and interest paid in 2008, as compared to 2007.

Net cash used in investing activities decreased to RUR 1,125,393 thousand for the year ended 31 December 2008, from RUR 1,516,526 thousand for the year ended 31 December 2007 as a result of a decrease in cash used for the acquisition of associates and the acquisition of subsidiaries in 2008, as compared to 2007.

Net cash from financing activities decreased to RUR 694,611 thousand for the year ended 31 December 2008, from RUR 1,313,235 thousand for the year ended 31 December 2007. This decrease was primarily attributable to lower net borrowings in 2008, as compared to 2007.

As a result of the changes discussed above, during the nine-month period ended 30 September 2010, cash and cash equivalents increased by RUR 1,140,156 thousand, or 150%, to RUR 1,897,817 thousand as at 30 September 2010, from RUR 757,661 thousand as at 31 December 2009. During the year ended 31 December 2009, cash and cash equivalents increased by RUR 88,179 thousand, or 13%, to RUR 757,661 thousand as at 31 December 2009, from RUR 669,482 thousand as at 31 December 2008. During the year ended 31 December 2008, cash and cash equivalents increased by RUR 292,279 thousand, or 77%, to RUR 669,482 thousand as at 31 December 2008, from RUR 377,203 thousand for as at 31 December 2007.

Indebtedness

Overview

HMS Group's indebtedness primarily consists of bank loans from Russian banks and Russian subsidiaries of international banks. As at 30 September 2010, the majority of the Group's outstanding indebtedness was with Sberbank and the remainder was with other Russian banks and Russian subsidiaries of international banks. For a description of certain risks associated with the Group's indebtedness, see "*Risk Factors—Risks Related to Financial Matters and Internal Controls*".

The following tables summarise HMS Group's indebtedness as at 31 December 2007, 2008 and 2009, and 30 September 2010.

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RUR thousands			
Short-term borrowings				
Russian Rouble denominated loans	2,818,812	3,903,624	1,594,973	938,259
U.S. dollar denominated loans	47,070	141,939	269,895	—
Euro denominated loan	—	10,416	—	—
Belorussian Rouble denominated loans	—	11,272	2,272	3,435
Ukrainian Hriyvna denominated loans	32,970	14,671	11,634	—
Total short-term borrowings and current portion of long-term loans, including interest	**2,898,852**	**4,081,922**	**1,878,774**	**941,694**
Long-term borrowings				
Russian Rouble denominated loans	1,730	—	3,396,766	4,132,200
U.S. Dollar denominated loans	50,901	—	—	—
Belorussian Rouble denominated loans	—	787	—	—
Ukrainian Hriyvna denominated loans	—	—	—	2,681
Total long-term borrowings, less short-term portion of long-term borrowings	**52,631**	**787**	**3,396,766**	**4,134,881**
Total borrowings	**2,951,483**	**4,082,709**	**5,275,540**	**5,076,575**

As at 30 September 2010, the majority of HMS Group's debt was subject to fixed interest rates. The weighted average interest rates of HMS Group's outstanding total borrowings by currency as at 31 December 2007, 2008 and 2009, and 30 September 2010, is provided in the table below.

	Weighted average interest rate at:			
	31 December			30 September
	2007	2008	2009	2010
			%	
Rouble-denominated borrowings	10.61	15.44	15.89	10.35
US dollar-denominated borrowings	10.88	11.28	9.18	—
Euro-denominated borrowings	—	9.5	—	—
Belorussian Rouble-denominated borrowings	—	11.58	23.00	23.00
Ukrainian Hriyvna-denominated borrowings	14.93	21.72	23.00	—

As at 30 September 2010, borrowings of HMS Group and certain of its subsidiaries were secured by the pledge of property, plant and equipment and inventories in the total amount of RUR 1,332,383 thousand, as compared to RUR 1,537,039 thousand as at 31 December 2009. As at 30 September 2010, Hydromashservice, one of HMS Group's subsidiaries had pledged 30% of the share capital of DGkhM as security for certain borrowings. As at 30 September 2010, HMS Group had pledged 25% plus one share of the share capital of Neftemash as security for certain borrowings. The pledged value of this interest in Neftemash was RUR 1,376,302 thousand as at 30 September 2010, as compared to RUR 410,570 thousand as at 31 December 2009. As at 30 September 2010, HMS Group had also pledged 51% of the ordinary shares of GTNG as security for a loan in the total amount of RUR 1,454,776 thousand obtained in connection with the acquisition of GTNG.

HMS Group pledged an additional 3% of Neftemash's share capital under a pledge agreement dated 25 December 2009.

In addition, Hydromashservice and Neftemash, two of HMS Group's subsidiaries, are obliged, under the terms of three loan agreements entered into with Sberbank in 2009, to pledge non-current assets with a pledge value in the total amount of RUR 1,273,000 thousand, 43% of the share capital of Tomskgazstroy, 49% of the share capital of SKMN and an additional stake in DGKhM, as well as to enter into certain other subsequent pledges of assets either already pledged to Sberbank under the same three loan agreements or to be pledged thereunder as discussed above. In Februay 2011, Hydromashservice and Neftemash entered into addendum agreements with respect to the three Sberbank loan agreements mentioned above, thereby extending the deadline for providing the above-mentioned security to 15 April 2011.

Off-balance sheet arrangements

As of the date of this Prospectus, HMS Group does not have any off-balance sheet arrangements.

Qualitative and Quantitative Disclosure about Market Risks

HMS Group's activities expose it to a variety of market risks, including credit risk, liquidity risk and interest rate risk. HMS Group actively seeks to minimise the potential adverse effects of such risks on its financial performance. HMS Group does not currently use derivative financial instruments to hedge its risk exposures.

Credit risk

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

Liquidity risk

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

Interest rate risk

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

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

Critical Accounting Estimates and Judgments

The preparation of HMS Group's consolidated financial statements in conformity with IFRS requires HMS Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. As a result, HMS Group's actual results may differ from such estimates. HMS Group reviews estimates and the underlying assumptions on an ongoing basis. See Note 4 to the Consolidated Financial Statements for a summary of HMS Group's critical accounting estimates and judgments.

Recent Accounting Pronouncements

The IASB has recently promulgated certain new International Financial Reporting Standards, amendments to standards and amendments to interpretations. These new standards and amendments are described in Note 4 to the Interim Financial Statements.

These new standards and amendments were not yet effective for the nine months ended 30 September 2010 and have not been applied in preparing HMS Group's consolidated financial statements. However, HMS Group does not expect that the application of these new standards and amendments will have a material effect on its consolidated financial statements.

Management's Discussion and Analysis of the Financial Condition and Results of Operations of GTNG

HMS Group obtained control over GTNG, a leading independent Russian R&D centre specialising in the design and engineering of oil and gas fields, in June 2010, with the acquisition of 51.0% of the voting shares of GTNG. See "*—Acquisitions*". Due to the materiality of the acquisition of GTNG, HMS Group

presents the following discussion of GTNG's financial condition and results of operations as at and for the years ended 31 December 2008 and 2009 and the nine-month periods ended 30 September 2009 and 2010. The following discussion should be read in conjunction with the GTNG Financial Statements, including, in each case, the notes thereto and the other information included elsewhere in this Prospectus. See also "*Presentation of Financial and Other Information*". The GTNG Financial Statements are prepared in accordance with IFRS.

This section contains forward-looking statements that involve risks and uncertainties. GTNG's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "*Risk Factors*" and "*Forward-Looking Statements*". In this section, unless otherwise indicated, the financial information discussed is extracted or derived from the GTNG Financial Statements.

Significant Factors Affecting GTNG's Results of Operations

For a discussion of the principal factors that have affected GTNG's results of operations during the periods under review, and that can be expected to affect its results of operations in the future, see "*—Levels of capital expenditures of the Group's customers*" and "*—State supported infrastructure projects*".

Description of Key Line Items

The following discussion provides a description of the composition of the key line items in GTNG's statement of comprehensive income for the periods presented.

Revenue

GTNG earns substantially all of its revenue from the sale of design and engineering services to customers in the oil and gas industry. GTNG's principal activities comprise front-end engineering and design, project evaluation, environmental impact assessment and risk analysis. GTNG recognises revenue on its sale of design services by reference to the stage of completion of contracts on the basis of the actual costs incurred as a proportion of total costs per contract.

In addition, GTNG earns revenue from the rent of commercial real estate. GTNG owns two large office buildings, one located in Tyumen and the other in Ekaterinburg, in which its employees are based. Both of these buildings contain space that is surplus to GTNG's requirements and which it leases to third parties.

Cost of sales

As a percentage of revenue, GTNG's cost of sales represented 81.2% and 82.4% for the nine months ended 30 September 2009 and 2010 and 73.7% and 83.3% for the years ended 31 December 2008 and 2009, respectively. The principal components of GTNG's cost of sales, which are those costs that it incurs directly in rendering its services, comprise labour costs (which represented as a proportion of total cost of sales 55% and 58% for the nine months ended 30 September 2009 and 2010 and 46% and 53% for the years ended 31 December 2008 and 2009, respectively) and design and engineering services of subcontractors (which as a proportion of total cost of sales represented 29% and 24% for the nine months ended 30 September 2009 and 2010 and 36% and 30% for the years ended 31 December 2008 and 2009, respectively). Certain GTNG employees receive a low base salary and a revenue-linked salary component that is calculated based on the amount of revenues that GTNG earns in a given period. Therefore, labour costs vary depending to an extent on the levels of revenue earned by GTNG.

Labour costs comprise salaries and wages expenses for production personnel, including social taxes, provision for unused vacation and other costs.

Design and engineering services of subcontractors

GTNG engages subcontractors to carry out certain work required for the fulfilment of its contracts in situations that require specialist work or where it is more expedient to engage a third party. Design and engineering and installation services of subcontractors costs are dependent not only on the volume of work carried out by GTNG but also on the type of work carried out and the utilisation rates of GTNG's employees. If GTNG carries out a significant volume of work that requires these third party services, or GTNG's employees are fully utilised, these costs typically increase. In most circumstances, GTNG is able to pass these costs on to the customer.

General and administrative expenses

As a percentage of revenue, GTNG's general and administrative expenses represented 9.6% and 10.8% for the nine months ended 30 September 2009 and 2010 8.2% and 10.0% for the years ended 31 December 2008 and 2009, respectively.

Labour costs comprise the majority of GTNG's general and administrative expenses (which as a proportion of total general and administrative expenses represented 63% and 58% for the nine months ended 30 September 2009 and 2010 and 67% and 65% for the years ended 31 December 2008 and 2009, respectively) and include the salaries, bonuses, provision for unused vacation and other costs of GTNG's management team and administrative personnel.

GTNG Results of Operations for the Nine Months Ended 30 September 2010 Compared to the Nine Months Ended 30 September 2009

The following table sets forth GTNG's statement of comprehensive income for the nine months ended 30 September 2009 and 2010.

	Nine months ended 30 September			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue	1,383,445	100.0%	1,518,356	100.0%
Cost of sales	(1,123,712)	(81.2)%	(1,251,278)	(82.4)%
Gross profit	**259,733**	**18.8%**	**267,078**	**17.6%**
Distribution and transportation expenses	(696)	(0.1)%	(3,942)	(0.3)%
General and administrative expenses	(133,414)	(9.6)%	(163,968)	(10.8)%
Other operating expenses (net)	(9,829)	(0.7)%	(17,766)	(1.2)%
Operating profit	**115,794**	**8.4%**	**81,402**	**5.4%**
Finance income	56,565	4.1%	38,622	2.5%
Profit before income tax	**172,359**	**12.5%**	**120,024**	**7.9%**
Income tax expense	(60,600)	(4.4)%	(44,022)	(2.9)%
Profit for the period	**111,759**	**8.1%**	**76,002**	**5.0%**
Other comprehensive income	—	—	—	—
Total comprehensive income for the period	**111,759**	**8.1%**	**76,002**	**5.0%**

Revenue

The table below sets forth GTNG's revenues in the periods indicated.

	Nine months ended 30 September			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue from design and engineering contracts	1,314,268	95.0%	1,465,350	96.5%
Revenue from rent	69,116	5.0%	52,440	3.5%
Sales of other services and goods	61	0.0%	566	0.0%
Total	**1,383,445**	**100.0%**	**1,518,356**	**100.0%**

GTNG's revenues increased by RUR 134,911 thousand, or 10%, to RUR 1,518,356 thousand for the nine months ended 30 September 2010, from RUR 1,383,445 thousand for the nine months ended 30 September 2009. This increase was attributable primarily to an improvement in the oil field design and engineering services market in the first nine months of 2010 as a result of increased capital expenditures by GTNG's customers. Projects that had been put on hold as a result of the global economic downturn resumed and there was a corresponding increase in the number of new contracts entered into by GTNG in the second half of 2009 and the first half of 2010. However, the increase in demand for GTNG's services was offset by lower pricing for contracts entered into in 2009, which still reflected the price levels established during the global economic downturn.

Cost of sales

GTNG's cost of sales increased by RUR 127,566 thousand, or 11%, to RUR 1,251,278 thousand for the nine months ended 30 September 2010, from RUR 1,123,712 thousand for the nine months ended 30 September 2009, higher labour costs as a result of increased work volumes.

	Nine months ended 30 September			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Labour costs	620,194	44.8%	727,374	47.9%
Design and engineering services of subcontractors	321,255	23.2%	303,623	20.0%
Raw materials and supplies	40,102	2.9%	49,545	3.3%
Depreciation and amortisation	49,061	3.5%	44,215	2.9%
Defined benefits scheme expenses	11,243	0.8%	36,838	2.4%
Services from third parties	48,212	3.5%	27,548	1.8%
Property, plant and equipment repair and maintenance	21,492	1.6%	18,214	1.2%
Transportation	6,808	0.5%	14,387	0.9%
Utilities	7,794	0.6%	9,006	0.6%
Recognition/(reversal) of loss under IAS 11	(30,607)	(2.2%)	5,435	0.4%
Provision for obsolete inventories	2,472	0.2%	(4,004)	(0.3%)
Other expenses	25,686	1.9%	19,097	1.3%
Total	**1,123,712**	**81.2%**	**1,251,278**	**82.4%**

Labour costs represented the largest portion of GTNG's cost of sales for the nine months ended 30 September 2010 and 2009. Labour costs increased by RUR 107,180 thousand, or 17%, to RUR 727,374 thousand for the nine months ended 30 September 2010, from RUR 620,194 thousand for the nine months ended 30 September 2009. The increase was primarily attributable to the increase in the volume of contracts carried out by GTNG in the nine months ended 30 September 2010. In addition, following the acquisition of GTNG by the Group, redundancy payments were made to certain managers.

Design and engineering services of subcontractors decreased by RUR 17,632 thousand, or 5%, to RUR 303,623 thousand for the nine months ended 30 September 2010, from RUR 321,255 thousand for the nine months ended 30 September 2009 due to a change in the mix of work carried out in the nine months ended 30 September 2010, which resulted in reduced need for services from subcontractors.

Gross profit and gross margin

Gross profit increased by RUR 7,345 thousand, or 3%, to RUR 267,078 thousand for the nine months ended 30 September 2010, from RUR 259,733 thousand for the nine months ended 30 September 2009, as a result of increased revenue from design and engineering contracts in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009. GTNG's gross margin decreased to 18% for the nine months ended 30 September 2010, from 19% for the nine months ended 30 September 2009.

Income tax expense

Income tax expense, which comprises current tax and deferred tax, decreased by RUR 16,578 thousand, or 27%, to RUR 44,022 thousand for the nine months ended 30 September 2010, from RUR 60,600 thousand for the nine months ended 30 September 2009 as a result of a decrease in profit in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009.

	Nine months ended 30 September			
	2009		2010	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Current tax	68,639	5.0%	22,050	1.5%
Deferred tax	(8,039)	(0.6%)	21,972	1.4%
Total income tax charge	**60,600**	**4.4%**	**44,022**	**2.9%**

Profit for the period

Profit for the period decreased by RUR 35,757 thousand, or 32%, to RUR 76,002 thousand for the nine months ended 30 September 2010, from RUR 111,759 thousand for the nine months ended 30 September 2009, primarily as a result of higher operating expenses and lower finance income in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009.

GTNG Results of Operations for the Year Ended 31 December 2008 Compared to Year Ended 31 December 2009

The following table sets forth GTNG's statement of comprehensive income for the years ended 31 December 2008 and 2009.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue	2,875,108	100.0%	1,997,212	100.0%
Cost of sales	(2,119,889)	(73.7%)	(1,674,137)	(83.8%)
Gross profit	**755,219**	**26.3%**	**323,075**	**16.2%**
Distribution and transportation expenses	(707)	(0.0%)	(2,640)	(0.1%)
General and administrative expenses	(235,332)	(8.2%)	(200,106)	(10.0%)
Other operating expenses (net)	(32,775)	(1.1%)	(18,668)	(0.9%)
Operating profit	**486,405**	**16.9%**	**101,661**	**5.1%**
Finance income	25,898	0.9%	79,286	4.0%
Profit before income tax	**512,303**	**17.8%**	**180,947**	**9.1%**
Income tax expense	(88,524)	(3.1%)	(63,619)	(3.2%)
Profit for the year	**423,779**	**14.7%**	**117,328**	**5.9%**
Other comprehensive income	—	—	—	—
Total comprehensive income for the year	**423,779**	**14.7%**	**117,328**	**5.9%**

Revenue

The table below sets forth GTNG's revenues in the periods indicated.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Revenue from design and engineering contracts	2,773,627	96.5%	1,908,175	95.5%
Revenue from rent	99,877	3.5%	88,966	4.5%
Sales of other services and goods	1,604	0.1%	71	0.0%
Total	**2,875,108**	**100.0%**	**1,997,212**	**100.0%**

GTNG's revenues decreased by RUR 877,896 thousand, or 31%, to RUR 1,997,212 thousand for the year ended 31 December 2009, from RUR 2,875,108 thousand for the year ended 31 December 2008. This decrease was attributable primarily to a general reduction in the price level of design and survey services and the number of new tenders, both of which were the result of a decrease in the levels of capital expenditure of oil and gas companies following the onset of the global economic downturn.

Cost of sales

GTNG's cost of sales decreased by RUR 445,752 thousand, or 21%, to RUR 1,674,137 thousand for the year ended 31 December 2009, from RUR 2,119,889 thousand for the year ended 31 December 2008,

driven principally by lower labour costs and lower costs associated with design and engineering and installation works of subcontractors.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Labour costs	985,347	34.2%	890,554	44.6%
Design and engineering services of subcontractors	769,667	26.8%	510,505	25.6%
Supplies and raw materials	70,548	2.5%	66,288	3.3%
Depreciation and amortisation	74,621	2.6%	65,991	3.3%
Services from third parties	62,335	2.2%	62,331	3.1%
Defined benefits scheme expenses	4,857	0.2%	32,610	1.6%
Property, plant and equipment repair and maintenance	35,154	1.2%	29,237	1.5%
Utilities	9,386	0.3%	11,105	0.6%
Transportation	13,872	0.5%	10,231	0.5%
Inventory impairment provision	1,431	0.0%	2,734	0.1%
Loss recognition under IAS 11	16,487	0.6%	(39,615)	(2.0%)
Other expenses	76,184	2.6%	32,166	1.6%
Total	**2,119,889**	**73.7%**	**1,674,137**	**83.8%**

Labour costs represented the largest portion of GTNG's cost of sales for the years ended 31 December 2008 and 2009. Labour costs decreased by RUR 94,793 thousand, or 10%, to RUR 890,554 thousand for the year ended 31 December 2009, from RUR 985,347 thousand for the year ended 31 December 2008. The decrease was the result of a decrease in the volume of design and survey contracts, which led to lower revenues and therefore lower revenue-linked compensation for GTNG's employees.

Design and engineering services of subcontractors decreased by RUR 259,162 thousand, or 34%, to RUR 510,505 thousand for the year ended 31 December 2009, from RUR 769,667 thousand for the year ended 31 December 2008 as a result of the general decrease in the volume design and survey projects on which GTNG was engaged.

Gross profit and gross margin

Gross profit decreased by RUR 432,144 thousand, or 57%, to RUR 323,075 thousand for the year ended 31 December 2009, from RUR 755,219 thousand for the year ended 31 December 2008 as a result of the factors described above. GTNG's gross margin decreased to 16% for the year ended 31 December 2009, from 26% for the year ended 31 December 2008.

Income tax expense

Income tax expense, which comprises current tax and deferred tax, decreased by RUR 24,905 thousand, or 28%, to RUR 63,619 thousand for the year ended 31 December 2009, from RUR 88,524 thousand for the year ended 31 December 2008 due to lower profitability in 2009, as compared to 2008.

	Year ended 31 December			
	2008		2009	
	RUR thousands	% of revenue	RUR thousands	% of revenue
Current tax	142,031	4.9%	119,027	6.0%
Deferred tax	(8,246)	(0.3%)	(55,408)	(2.8%)
Effect of the change in the tax rate	(45,261)	(1.6%)	—	—
Total income tax charge	**88,524**	**3.1%**	**63,619**	**3.2%**

Profit for the year

Profit for the year decreased by RUR 306,451 thousand, or 72%, to RUR 117,328 thousand for the year ended 31 December 2009, from RUR 423,779 thousand for the year ended 31 December 2008 as a result of the factors discussed above.

Liquidity and capital resources

GTNG has historically relied on cash generated from operations to fund its working capital and long-term capital requirements. GTNG's future liquidity requirements are expected to be funded through cash generated from its operations and the Group's other funding sources. See *"—HMS Group Liquidity and Capital Resources"*.

Net current assets

The table below sets forth GTNG's current assets and liabilities as at the dates indicated.

	As at 31 December		As at 30 September
	2008	2009	2010
	RUR thousands		
Current assets			
Inventories	22,314	20,737	14,322
Trade and other receivables	1,118,173	580,008	760,941
Other financial assets	205,417	709,767	—
Current income tax receivable	100	5	7,291
Prepaid expenses	5,911	5,351	10,119
Cash and cash equivalents	428,747	343,201	162,644
Restricted cash	121	146	2,042
Total	**1,780,783**	**1,659,215**	**957,359**
Current liabilities			
Trade and other payables	577,784	527,668	569,485
Provisions for liabilities and charges	39,308	33,257	22,511
Pension liability	1,889	18,779	4,772
Current income tax payable	65,703	21,897	60
Other taxes payable	146,698	106,119	57,383
Total	**831,382**	**707,720**	**654,211**
Net current assets	**949,401**	**951,495**	**303,148**

As at 30 September 2010, GTNG's net current assets amounted to RUR 303,148 thousand, representing a decrease of RUR 648,347 thousand, from RUR 951,495 thousand as at 31 December 2009, principally due to the redemption of financial assets totalling RUR 709,767 thousand during the nine months ended 30 September 2010. Cash and cash equivalents also decreased, from RUR 343,201 thousand as at 31 December 2009, to RUR 162,644 thousand as at 30 September 2010. This was offset by an increase in trade and other receivables, which amounted to RUR 760,941 thousand as at 30 September 2010, as compared to RUR 580,008 thousand as at 31 December 2009.

As at 31 December 2009, GTNG's net current assets amounted to RUR 951,495 thousand, representing an increase of RUR 2,094 thousand, from RUR 949,401 thousand as at 31 December 2008 due to a decrease in current liabilities, which was only partially offset by a decrease in current assets. Trade and other receivables decreased by RUR 538,165 thousand, or 48%, to RUR 580,008 thousand as at 31 December 2009, from RUR 1,118,173 thousand as at 31 December 2008 as a result of a decrease in the volume and value of design and engineering contracts entered into in 2009. However, other financial assets increased by RUR 504,350 thousand, or 246%, to RUR 709,767 thousand as at 31 December 2009, from RUR 205,417 thousand as at 31 December 2008 following the purchase of additional promissory notes and the extension of a series of loans to a related party of GTNG, GTNG Engineering. All of these loans have subsequently been repaid.

Capital expenditures

GTNG primarily incurs capital expenditures for the modernisation of key equipment, transport vehicles and computer software. In the year ended 31 December 2008 and 2009 and the nine-month period ended 30 September 2010, GTNG incurred capital expenditures of RUR 68,433 thousand, RUR 93,304 thousand and RUR 37,404 thousand.

Capital Resources

For the years ended 31 December 2008 and 2009 and for the nine months ended 30 September 2010, GTNG's primary source of funding was cash generated from operations. As at 30 September 2010, GTNG had no indebtedness.

Cash Flows

The following table sets forth GTNG's cash flows for the years ended 31 December 2008 and 2009 and for the nine months ended 30 September 2009 and 2010.

	Year ended 31 December		Nine months ended 30 September	
	2008	**2009**	**2009**	**2010**
	RUR thousands			
Net cash (used in)/generated from operations	233,193	510,278	272,303	(61,250)
Net cash (used in)/from investing activities	5,666	(518,330)	(403,642)	(117,435)
Net cash (used in)/financing activities	(82,434)	(77,590)	(67,963)	(1,889)
Net increase/(decrease) in cash and cash equivalents	**156,425**	**(85,642)**	**(199,302)**	**(180,574)**

Nine months ended 30 September 2010, compared to nine months ended 30 September 2009

Net cash used in operations amounted to RUR 61,250 thousand for the nine months ended 30 September 2010, as compared to net cash generated from operations of RUR 272,303 thousand for the nine months ended 30 September 2009 due to an increase in trade and other receivables of RUR 205,460 thousand as a result of increased work volumes in the nine months ended 30 September 2010. Although accounts payable also increased, such increase was not proportionate to the increase in trade and other receivables.

Net cash used in investing activities decreased to RUR 117,435 thousand for the nine-month period ended 30 September 2010, from RUR 403,642 thousand for the nine months ended 30 September 2009 due to a number of factors, including the redemption of the balance of GTNG's financial assets and a smaller increase in deposits in the nine months ended 30 September 2010, as compared to the nine months ended 30 September 2009. This was partially offset by the purchase of an interest in an associate, SKMN, in May 2010 for cash consideration of RUR 428,420 thousand.

Net cash used in financing activities decreased to RUR 1,889 thousand for the nine-month period ended 30 September 2010, from RUR 67,693 thousand for the nine months ended 30 September 2009 as a result of a decrease in the amount of dividends paid to shareholders.

Year ended 31 December 2009, compared to year ended 31 December 2008

Net cash generated from operating activities amounted to RUR 510,278 thousand for the year ended 31 December 2009, as compared to RUR 233,193 thousand for the year ended 31 December 2008. This change was attributable primarily to a decrease in accounts receivable in 2009, as compared to 2008. During the economic downturn, which started in the second half of 2008, certain of GTNG's customers were not able to timely settle their accounts; however, the situation improved in 2009 and, despite lower profitability, GTNG's net cash from operating activities increased.

Net cash used in investing activities amounted to RUR 518,330 thousand for the year ended 31 December 2009, as compared to net cash from investing activities of RUR 5,666 thousand for the year ended 31 December 2008 due to a net purchase of promissory notes in the year ended 31 December 2009, as compared to a net redemption in the year ended 31 December 2008. In addition, GTNG issued loans to a related party of GTNG, GTNG Engineering, in 2009 and its purchases of property, plant and equipment were significantly higher in 2009, as compared to 2008.

Net cash used in financing activities decreased to RUR 77,590 thousand for the year ended 31 December 2009, from RUR 82,434 thousand for the year ended 31 December 2008 as a result of a decrease in the amount of dividends paid to shareholders.

OVERVIEW OF GLOBAL FLOW CONTROL SOLUTIONS MARKET

The Group is the leading pump manufacturer and provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utility sectors in Russia and the CIS. The Group manufactures pumps and provides pump-based flow-control solutions and integrated solutions, including modular equipment, and aftermarket services. In addition, the Group provides certain EPC services which are synergistic with its other operations, in particular, by improving the Group's ability to offer integrated solutions.

OVERVIEW OF THE GLOBAL PUMP MARKET

Pumps are one of the key products of the global flow control solutions market. Pumps are used in a variety of sectors including the oil and gas, power generation, water utility, food and beverage, chemicals, pharmaceuticals and other sectors. The global pump market was valued at US$37.9 billion in 2009, according to Frost & Sullivan. According to the same source, pump sales are expected to grow at a compounded annual growth rate ("**CAGR**") of 4.3% between 2009 and 2015, reaching US$48.8 billion by 2015.

The water utility sector is expected to account for the highest growth among the above segments, followed by the power generation and oil and gas sectors, driven by increasing demand for clean drinking water and improved waste water disposal and strong global growth in energy demand. In 2009, pumps sold to the water and oil and gas sectors together comprised nearly 50% of global pump sales, according to Frost & Sullivan. These two industries, according to the same source, are expected to continue to represent the largest market share of pump demand for the foreseeable future.

Competitive environment

Competition in the global pumps industry is highly fragmented. Most market participants are small private companies operating on a regional basis and/or specialising in a particular type of technology or product portfolio. However, large manufacturers frequently have certain advantages over smaller producers, including, in particular, the ability to offer better aftermarket services and stronger R&D capabilities, allowing them to develop customised products and integrated solutions.

Key trends in the global pump market

Integrated solutions

In recent years, there has been strong growth in demand globally for integrated solutions, driven by customers across a broad range of industries seeking to optimise their supply chains by reducing the number of their suppliers and vendors and to reduce administrative and operational complexity and the risk of incompatibility issues and delays. Rather than outsource separately each of the engineering, procurement and construction aspects of a particular project, customers increasingly prefer to work with a single company capable of delivering or, alternatively, supervising and managing, each of these services, and thus able to develop and deliver complete systems customised to the specific requirements of the customer.

In 1990, the value of the global integrated solutions market was equal to between 10% and 15% of the global pump market value. By 2009, it had grown to between 25% and 30% of the value of the global pump market and it is expected to grow to between 45% and 50% of the global pump market by 2015. In some sectors the share of integrated solutions is higher. For example, in the nuclear power generation sector, an equal amount of money is spent on additional equipment and systems under integrated solutions contracts as is spent on the pumps themselves, according to Frost & Sullivan.

The trend towards integrated solutions favours larger flow control solutions providers with a broader range of products and more advanced R&D facilities, as they are able to develop and manufacture a larger proportion of the integrated solution's components in-house. This capability allows for a higher degree of product customisation and the design and engineering of more complex integrated solutions.

Aftermarket services

Pump manufacturers have increasingly focused on offering high-quality after-sales support and services to generate higher-margin, recurring revenue. Services offered by industry participants have continually

expanded and now include installation, general service agreements, maintenance, and technical support. Aftermarket activities also provide an important ongoing link between suppliers and their customer bases. Currently the global market for aftermarket services amounts to 35-40% of the global pump systems market.

Regional trends

In 2009, the global pump market was regionally split as follows: Europe, Middle East and Africa (EMEA)—38%, Americas—30%, Asia Pacific—32%. The Asia Pacific region is expected to grow most strongly, accounting for 38% of the global market in 2015.

The market for pumps in the BRIC and the CIS countries is expected to experience strong growth, driven by overall economic growth, growth in spending on water and waste water infrastructure, growth in extractive industries, urbanisation, increasing environmental regulation and population growth.

KEY TRENDS AND FUTURE GROWTH DRIVERS IN THE GROUP'S RUSSIAN MARKETS

The Group's core end markets in Russia are the oil transportation, oil production, power generation and water utility sectors (in addition to which the Group is also present in certain export markets in the CIS and elsewhere). Demand for the Group's products and services, such as pumps, integrated solutions, including modular equipment and EPC services in Russia has been driven, and will continue to be driven, to a substantial extent by investment to replace, modernise or expand Russia's oil pipeline, oil field, oil refinery, water utility and power generation infrastructure.

Most of Russia's infrastructure and industrial facilities were constructed during the Soviet period and are now reaching the end of their useful life, creating an acute need for replacement or modernisation, particularly in the oil transportation, power generation and water utility sectors. In addition, there is a substantial need for new capacity. In the power generation and water utility sectors, new capacity is required to meet increasing demand driven by economic growth, with the Russian economy having enjoyed strong growth in recent years and forecast to grow at approximately 4% in real terms in the period to 2014, according to the Economist Intelligence Unit (September 30, 2010). In the oil sector, the majority of fields in Russia's core oil province, Western Siberia, are increasingly mature, and extensive investment in both production facilities and oil transportation infrastructure will be required as oil companies seek to develop new greenfield projects and invest in existing assets in order to offset declining production.

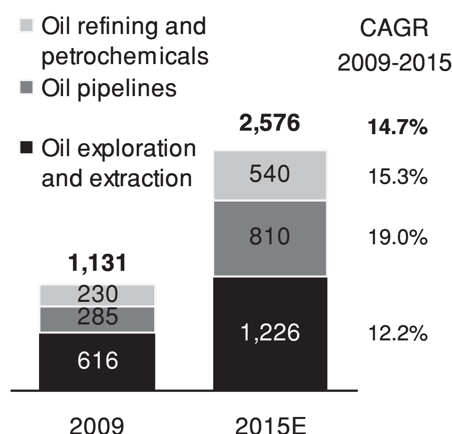
Investment in the oil transportation, oil production, power generation and water utility sectors is expected to be funded by a combination of private investment and investment directly funded or indirectly supported by the Government, including direct funding of development in the power generation and water utility sectors, increasing of tariffs to enable investment in the oil transportation and water utility sectors, and favourable taxation to encourage private sector investment in oil and gas production.

While investment in the oil transportation, oil production, power generation and water utility sectors since the end of the Soviet Union has largely focused on replacement of Soviet-era equipment, recent years have seen an increasing number of large, complex greenfield development projects, and such projects are expected to account for an increasing share of investment in these sectors going forward. This trend has driven a significant increase in demand for integrated solutions and other complex and highly-engineered products and services, and demand for such integrated solutions and products and services is expected to continue to grow at above-market rates.

Key trends in the Russian oil sector

In 2009, capital expenditures in the Russian oil sector, including oil exploration and production, oil pipelines, and oil refining and petrochemicals, were RUR 1,131 billion, and are expected to increase with an expected CAGR of 14.7% from 2009-2015 according to Frost & Sullivan, driving demand for the Group's pumps and integrated solutions, including modular equipment and EPC services.

Russian oil and gas sector investments (RUR bn)



Source: Frost & Sullivan

Investment in the oil sector is expected to be driven by:

- Replacement and modernisation of existing oil transportation and production infrastructure
- Development of new greenfield upstream projects, many of which will be located outside Russia's core oil production areas
- Increasing capital intensity of production at existing fields
- Development of new oil pipeline infrastructure
- Investment in modernisation of Russia's outdated refinery infrastructure and construction of new refining capacity

Much of Russia's oil pipeline network was constructed prior to 1985 and urgently needs to be upgraded to increase pump efficiency and replace equipment nearing the end of its useful life. Similarly, substantial investment is required to replace Soviet-era equipment used in oil production. For example, according to Frost & Sullivan, over 50% of all modular equipment in Russia needs to be replaced or upgraded. The Government has estimated that approximately $600 billion in capital investments need to be made between 2009 and 2030 to upgrade and replace existing oil and gas infrastructure.

Russia's current core oil production regions are increasingly mature, and recent years have seen the beginning of intensive development of Eastern Siberia. Eastern Siberia is a frontier region with limited infrastructure and very harsh operating conditions and, as a result development of oilfields in Eastern Siberia is substantially more capital intensive than development in traditional regions. The Government has taken, and is continuing to take, extensive measures to encourage development of Eastern Siberia, including putting in place a more favourable tax regime and constructing a major trunk pipeline, the ESPO oil pipeline, to serve fields in the region.

While a more attractive tax regime has been put in place for Eastern Siberia, the standard current upstream tax regime is an impediment to large-scale investment in greenfield projects in most other regions of Russia. However, according to Frost & Sullivan, it is anticipated that the Government will bring about changes to the taxation of oil production for undeveloped assets, which is expected to result in an increase in investments in greenfield development in other regions.

In addition, increasing maturity is expected to drive an increase in capital intensity at Russia's currently producing fields. In particular, high and rising water-cut is a particular issue at mature Russian fields—the average water cut rate of developed oil fields in Russia is 80% presently and is expected to reach over 95% by 2015—and will result in large expenditure on water injection systems.

Examples of large-scale investments in the Russian upstream expected to be completed between 2012 and 2015 include:

- the Vankor oil field (Rosneft), a greenfield development in Eastern Siberia with CAPEX of RUR 369 billion expected between 2009 and 2017.

- the Talakan and Alinsk field (Surgutneftegaz), a greenfield development in Eastern Siberia with CAPEX of RUR 231 billion expected between 2010 and 2014;
- the Verkhnechonsk field (TNK-BP), a greenfield development in Eastern Siberia with CAPEX of RUR 138 billion expected between 2009 and 2015;
- the Samotlor field (TNK-BP), a mature field in Western Siberia with CAPEX of RUR 166 billion expected to be spent between 2009 and 2014; and
- the Tyamkinsk field (TNK-BP), a greenfield development in Western Siberia with CAPEX of RUR 85 billion expected between 2010 and 2012.

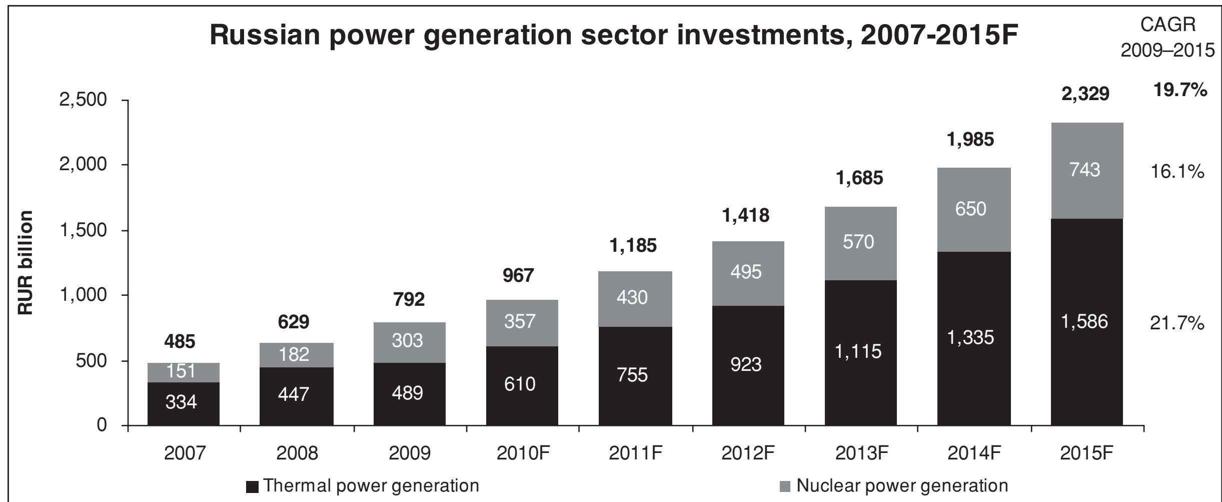
The Government, through the state-owned pipeline monopoly Transneft, has invested substantially in expanding Russia's trunk oil pipeline network in recent years, in order to increase capacity, to connect fields located away from existing pipeline infrastructure (for example in Eastern Siberia) and to improve access to export markets, in particularly to Asian markets. Such investment is expected to continue, and examples of large-scale oil pipeline projects expected to be completed between 2011 and 2015 include:

- the ESPO-1 (2011), ESPO-1 extension (2013), ESPO-2 and ESPO-2 pipeline projects with total CAPEX of RUR 1,105 billion expected between 2006 and 2015;
- the BTS-2 pipeline with CAPEX of RUR 120 billion expected between 2009 and 2012;
- the Purpe-Samotlor pipeline with CAPEX of RUR 45 billion expected between 2010 and 2012;
- the Zapolyarnoe-Purpe pipeline with CAPEX of RUR 120 billion expected between 2011 and 2015;
- the Haryaga-Yuzhny Khylchuyu pipeline with CAPEX of RUR 90 billion expected between 2010 and 2012;
- the "Yug" oil products pipeline with CAPEX of RUR 81 billion expected between 2011 and 2013;
- the Yurobcheno-Tokhomskoe-Taishet pipeline with CAPEX of RUR 63 billion expected between 2012 and 2013;
- the Tikhoretsk-Tuapse-2 pipeline with CAPEX of RUR 20 billion expected between 2011 and 2012;
- the Komsomolsky NPZ-port De-Kastry oil and oil products pipelines with CAPEX of RUR 95 billion expected between 2012 and 2014; and
- the expansion of the Caspian consortium pipeline with an expected CAPEX of RUR 88 billion between 2012 and 2014.

Extensive investment is also expected in refining and petrochemicals infrastructure. Nearly all of Russia's oil refineries require substantial investment upgrades and improvements in order to meet tightening fuel quality standards and to increase output of higher value added products, for example transport fuels, and reduce output of lower value products like fuel oil. Certain investment projects to modernise or construct refineries are also at various stages of planning or construction, including the Nizhnekamsk, Nakhodka and Kirishi refineries.

Key trends in the Russian power generation sector

In 2009, capital expenditures in the Russian power generation sector, including nuclear power and thermal power, were RUR 792 billion, and are expected to increase with an expected CAGR of 19.7% from 2009-2015 according to Frost & Sullivan, driving demand for the Group's pumps and integrated solutions. Investment in the power generation sector is expected to be driven by replacement and modernisation of existing infrastructure and investment to meet demand, which is expected to increase at a rate of 2-3% annually according to the Russian Ministry of Energy driven by economic growth.



Source: Frost & Sullivan

In nuclear power generation, the main driver of investment will be the investment programme of Rosatom, the Russian state-owned nuclear monopoly. The Russian State Nuclear Development Programme stipulates the construction of 26 new reactors in Russia by 2020. In addition, 15 existing nuclear reactors in Russia will undergo extensive replacement of existing equipment.

In addition, it is expected that a number of nuclear reactors will be constructed outside Russia by Rosatom. 50 nuclear reactors are currently under construction worldwide and an additional 130 or more facilities are planned to be operational in the next ten years, according to Frost & Sullivan. Russia has historically had a strong presence in export markets for nuclear technology, and a number of projects outside of Russia are expected to be commissioned by Rosatom, the Russian state-owned nuclear monopoly, using Russian technology in the near term, including the Mokhovtse (Slovakia), Belene (Bulgaria), Tianwan (China), Kudankulam (India) and Akkuyu (Turkey) nuclear power plants.

In thermal power generation, the main driver will be investment by privatised generating companies. In the face of increasing power demand and the fact that much of Russia's existing electricity generating capacity is at the end of its useful life, the Government has comprehensively reformed the power generation sector in order to attract investment through privatisation. Under the relevant legislation, privatised electricity companies are required to undertake substantial CAPEX programmes. These commitments are expected to underpin the growth of the market going forward. In addition, according to Frost & Sullivan, this will be supported by import substitution policies, with the Russian State Energy Development Programme 2030 aiming to reduce the market share of foreign manufacturers to 5% to 10% of total thermal power generating equipment by 2020. Frost & Sullivan estimates the total capital expenditures in thermal power generation to amount to US$ 200-290 billion from 2009-2030, with 24GW of additional capacity to be constructed by 2015.

Examples of thermal and nuclear power plant projects in Russia expected to be completed between 2010 and 2015 include:

- TGC 1 with a CAPEX of RUR 73 billion expected between 2010 and 2015;
- TGC 2 with a CAPEX of RUR 28 billion expected between 2010 and 2015;
- TGC 3 (Mosenergo) with a CAPEX of RUR 39 billion expected between 2010 and 2015;
- TGC 4 with a CAPEX of RUR 21 billion expected between 2010 and 2015;
- TGC 5 with a CAPEX of RUR 14 billion expected between 2010 and 2015;
- TGC 6 with a CAPEX of RUR 16 billion expected between 2010 and 2015;
- TGC 7 (Volga) with a CAPEX of RUR 11 billion expected between 2010 and 2015;
- TGC 8 with a CAPEX of RUR 18 billion expected between 2010 and 2015;
- TGC 9 with a CAPEX of RUR 28 billion expected between 2010 and 2015;
- TGC 10 (Fortum) with a CAPEX of RUR 47 billion expected between 2010 and 2015;

- TGC 11 with a CAPEX of RUR 26 billion expected between 2010 and 2015;
- TGC 12 (Kuzbas) with a CAPEX of RUR 21 billion expected between 2010 and 2015;
- TGC 13 (Yenisei) with a CAPEX of RUR 10 billion expected between 2010 and 2015; and
- TGC 14 with a CAPEX of RUR 8 billion expected between 2010 and 2015.

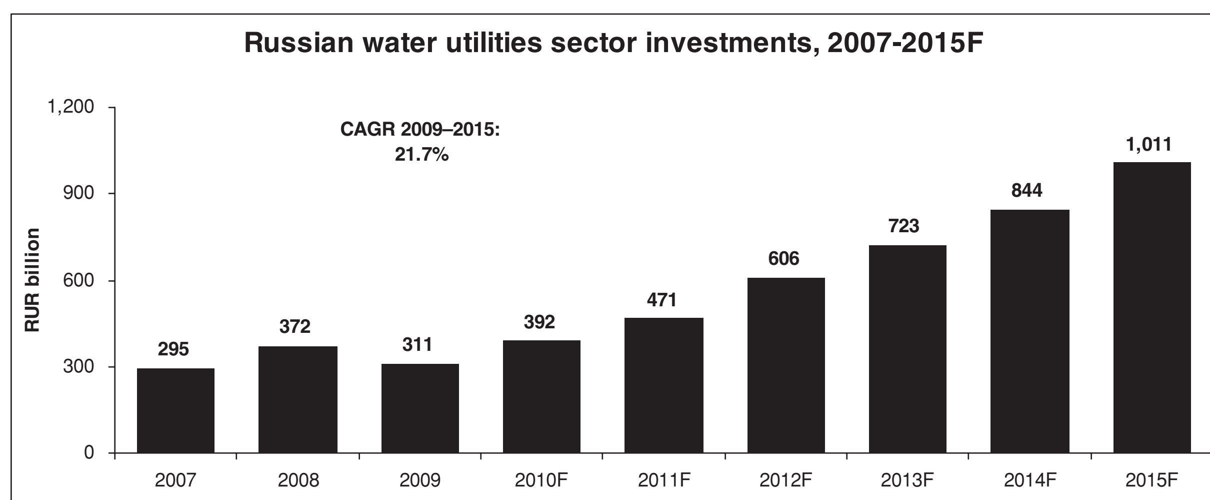
Examples of nuclear power plant projects outside Russia expected to be constructed using Russian technology:

- Belene (Bulgaria) with a CAPEX of RUR 128 billion expected between 2010 and 2015;
- Tianwan (China) with a CAPEX of RUR 86 billion expected between 2010 and 2015;
- Kudankulam (India) with a CAPEX of RUR 65 billion expected between 2010 and 2015;
- Mokhovtse (Slovakia) with a CAPEX of RUR 53 billion expected between 2010 and 2015; and
- Akkuyu (Turkey) with a CAPEX of RUR 27 billion expected between 2010 and 2015.

Other nuclear power plant projects in Ukraine, Belarus, Armenia and Vietnam are planned with total CAPEX of RUR 1,581 billion expected between 2010 and 2015.

Key trends in the Russian water utility sector

In 2009, capital expenditures in the Russian water utility sector, including waste water, were RUR 311 billion, and are expected to increase with an expected CAGR of 21.7% from 2009-2015 according to Frost & Sullivan, driving demand for the Group's pumps, integrated solutions and EPC services. Investment in the water utility sector is expected to be driven by replacement and modernisation of existing infrastructure and investment to meet demand driven by economic growth.



Source: Frost & Sullivan

Most water and waste water infrastructure in Russia dates back to the Soviet era and has subsequently suffered from chronic underinvestment. As a result, according to Frost & Sullivan, between 35% and 60% of drinking water reserves in Russia do not meet sanitary standards and 11 million people do not have access to quality drinking water. In addition, substantial investment will be required to meet additional demand from new residential, commercial and industrial construction projects, as well as increased demand for water for agriculture.

While the Government has already undertaken substantial measures intended to provide funding for investment in the oil and power generation sectors, measures taken to address the need for funding in the water utility sector to date are relatively limited. Nevertheless, the necessity of investment is widely recognised and investment is expected to be funded by direct state and municipal spending. For example, the Government has announced various programmes, including the "Clean Water" programme and the State Programme for the Modernisation of the Public Utilities Sector. Under the "Clean Water" regional programmes and the State Programme for Modernisation of the Public Utilities Sector and other projects,

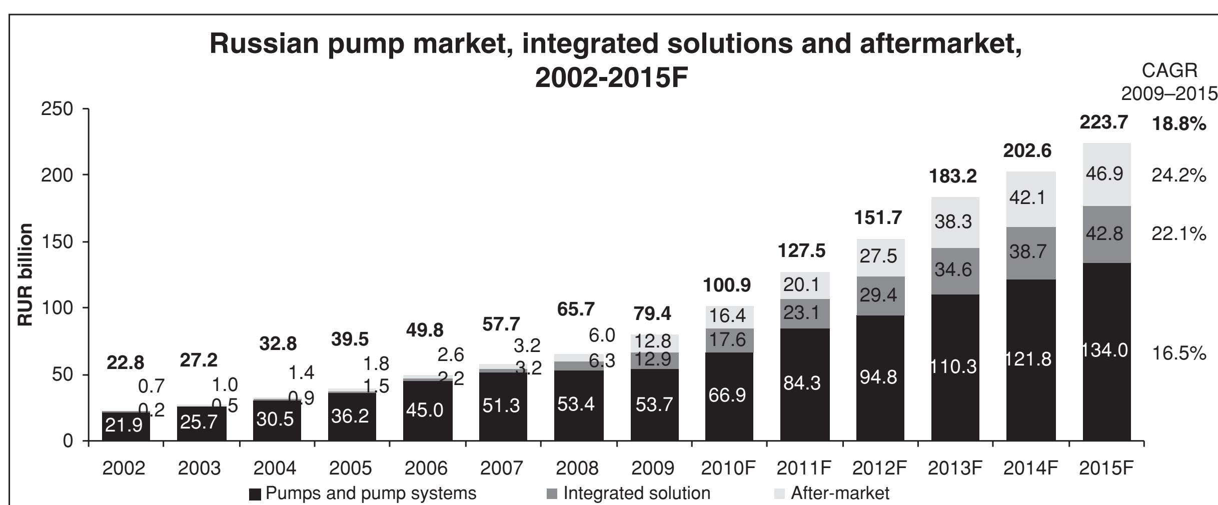
Frost & Sullivan estimates total investments into public utilities to exceed RUR 4 trillion until 2015, respectively.

In addition, the Government has for several years pursued a policy of allowing water tariffs to increase substantially above the rate of in inflation and has announced its intention to attract investment in water infrastructure through public-private partnerships.

OVERVIEW OF THE RUSSIAN MARKET FOR PUMPS AND RELATED INTEGRATED SOLUTIONS AND AFTERMARKET SERVICES

According to Frost & Sullivan, revenues generated from the sale of pumps, integrated solutions and aftermarket services in Russia were RUR 57.7 billion, RUR 65.7 billion and RUR 79.4 billion in 2007, 2008 and 2009, respectively. Pumps, integrated solutions and aftermarket services sales in Russia are expected to grow at a CAGR of 18.8% from 2009-2015 and reach RUR 223.7 billion by 2015, according to Frost & Sullivan. This growth is expected to be driven by integrated solutions and aftermarket segments, which are forecast to outperform the pump systems market according to the same source. See *"Key trends and future growth drivers in the Group's Russian markets"*.

The chart below sets out the historical and forecast market size in revenue terms of pump systems, integrated solutions and aftermarket services in Russia for the periods indicated.



Source: Frost & Sullivan

Integrated Solutions

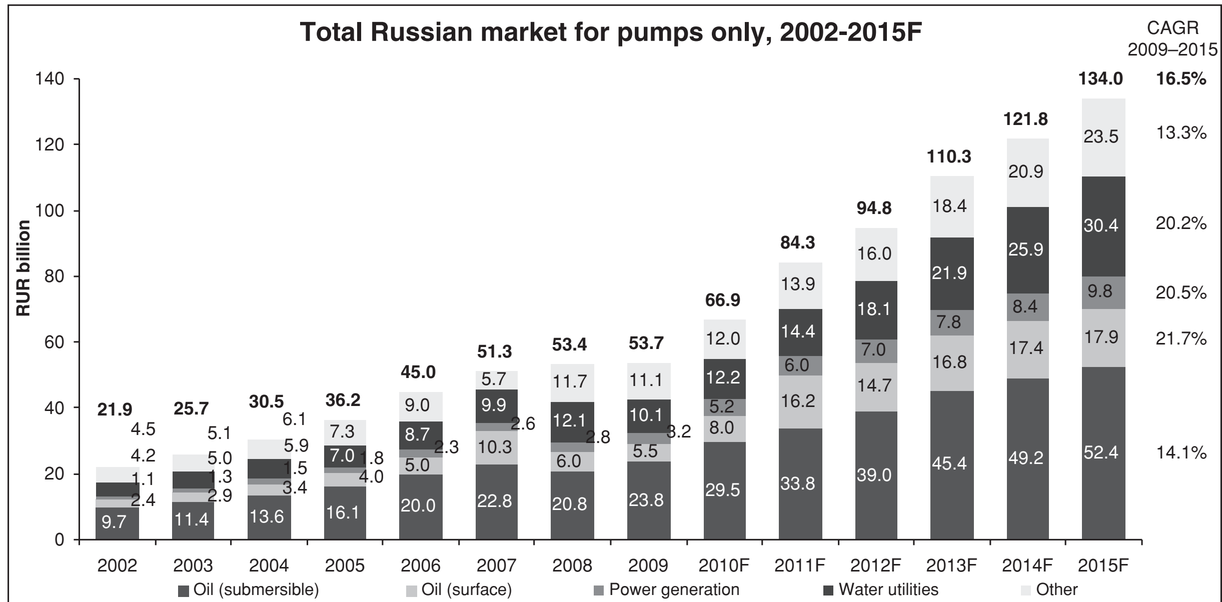
The market for integrated flow-control solutions is somewhat less developed in Russia than globally. However, strong growth is expected, with a CAGR of 22.1% from 2009-2015, according to Frost & Sullivan, outperforming the market for pump systems. According to the same source, the value of integrated solutions of the Russian pump market was 24% of total revenues in 2009, as compared to the global industry average of 25-30%, with this figure expected to increase to 45-50% by 2015.

While the trend towards integrated solutions is well established globally (see *"—Overview of the Global Pump Market—Key trends in the global pump market"*), the growth of demand for integrated solutions in Russia is further supported by additional Russia-specific factors. In particular, while investment in the oil transportation, oil production, power generation and water sectors since the end of the Soviet Union has largely focused on replacement of Soviet-era equipment, recent years have seen an increasing number of large, complex greenfield development projects, and such projects are expected to account for an increasing share of investment in these sectors going forward. This trend has driven a significant increase in demand for integrated solutions and other complex and highly-engineered products and services, and demand for such integrated solutions and products and services is expected to continue to grow at above-market rates as large-scale investment in, among others, the oil, power generation and water utility sectors, results in a continuing increase in the number of such projects.

Aftermarket Services

Aftermarket services in Russia have historically formed a smaller proportion of Russian pump manufacturers' sales than globally. As a result, in 2009 aftermarket sales amounted to 24% of the pump market in Russia vs. 35-40% globally. See "*—Overview of the Global Pump Market—Key trends in the global pump market*". This is due to the fact that most repair and maintenance services have historically been performed by large customers in-house. However, recently there has been an observable trend to outsource aftermarket services, and an increasing focus on energy efficiency by pump users, driven by rising energy prices, which has also driven demand for aftermarket services. For example, TNK-BP has outsourced all maintenance of its water injection pumps at the Samotlor field. Consequently, aftermarket growth in the industrial pumps segment is expected to outstrip growth in pumps systems and integrated solutions in Russia with an expected CAGR of 24.2% from 2009-2015, according to Frost & Sullivan.

The chart below sets out the historical and anticipated revenues from the sale of pumps in Russia for the periods indicated.



Source: Frost & Sullivan

According to Frost & Sullivan, revenues generated in Russia from the sale of pumps only were RUR 51.3 billion, RUR 53.4 billion and RUR 53.7 billion in 2007, 2008 and 2009, respectively. Pump sales in Russia are expected to grow at a CAGR of 16.5% from 2009-2015 and reach RUR 134 billion by 2015, according to Frost & Sullivan, thus outperforming the global pump market which is expected to grow with CAGR of 4,3% in 2009-2015. According to the same source, pump sales in Russia are expected to reach RUR 66.9 billion in 2010 compared to RUR 53.7 billion in 2009, an increase of RUR 13.2 billion, or 24.6%, and continue to grow significantly each year through 2015. See "*—Overview of the Global Pump Market—Key trends and future growth drivers in the Group's Russian markets*" for a discussion of drivers of growth.

Competitive Environment

Of the RUR 53.7 billion of pumps sold in Russia in 2009, 33% were imported (including imports from CIS countries), as compared to 41% in 2007, according to Frost & Sullivan. Domestic producers are expected to continue to dominate the Russian market due, in large part, to the significant barriers to entry in the Russian pump market and the competitive strengths of the Russian players. For example, most of the industrial and public facilities in Russia where pumps are deployed were designed and built by domestic companies employing engineering standards, equipment and technical specifications developed in the Soviet Union and unique to the former Soviet markets. In addition, many Russian manufacturers benefit from long-term relationships with key domestic clients. They also maintain local manufacturing and servicing capabilities and provide competitively priced products, unlike many foreign pump producers, resulting in shorter lead teams for new products and spare parts. In addition, many Russian pump

manufacturers have very large existing installed bases, representing a natural market for both aftermarket services and replacement pumps.

The industry is undergoing consolidation, resulting in a declining number of domestic competitors. In addition several factors may potentially favour an increase in market share by larger players. For example, pumps are not a core product for several market players and, as such, these companies do not have R&D departments specializing in the design and development of pump equipment. As a result these companies may eventually choose to exit the pump market and focus on their core businesses. In addition, smaller competitors do not have developed R&D or aftermarket services and are not able to provide, integrated solutions and quality aftermarket services, placing them at a competitive disadvantage.

Russian pump market segments

The Russian pump market serves six main sectors, within many of which there are a number of key product types:

Oil industry

- Pumps for drilling
- Submersible oil production pumps
- Water injection pumps
- Oil transportation pumps
- Pumps for oil refining and petrochemicals

Power generation (nuclear and thermal)

- Main circulation pumps ("MCP") for nuclear power generation
- Nuclear power generation pumps (other than MCP)
- Thermal power generation pumps

Water utilities

- Submersible water well pumps
- Clean water supply and dry-pit sewage
- Wet-pit sewage and wastewater treatment

Household pumps

- Household vibration pumps
- Submersible household pumps

Metallurgy and mining industries

Chemicals industry

In addition to the above sectors, pumps are also used in a wide range of other sectors of the Russian economy, including, pharmaceuticals, construction, food and beverage production, pulp and paper and others.

In the oil sector, pumps are used to transport oil and other liquids (e.g., water for injection) in the production, transportation and refining of oil. In the power generation, pumps are used to circulate heat carriers such as water and liquid sodium and other liquids used in the power generation process. In the water utilities sector, pumps are used for the extraction of water from water sources, such as wells, rivers and reservoirs, the distribution of water to end users and the removal of sewage from industrial facilities and households to treatment facilities.

The Group manufactures pumps primarily for the oil, power generation and water utility sectors. In addition, the Group manufactures pumps for the household sector although such pumps do not represent a substantial portion of the Group's annual revenues. In particular, the Group manufactures pumps

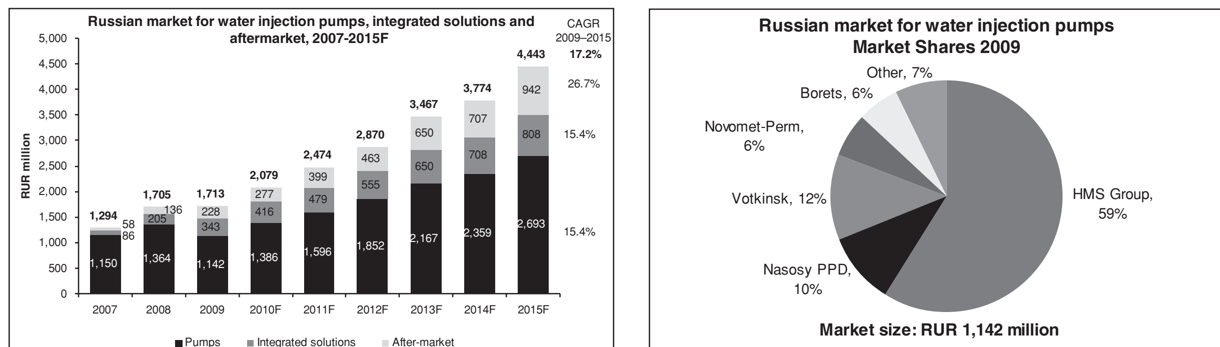
including water injection, oil transportation and oil refining and petrochemicals pumps, pumps for nuclear power generation (other than MCP), pumps for thermal power generation, submersible water well pumps, clean water supply and dry-pit sewage pumps, household vibration pumps and other pumps. The Group does not produce or distribute submersible oil production or MCP pumps. The only Russian manufacturer of MCPs, the most complex pump used in nuclear power generation, is a Rosatom subsidiary. Submersible oil production pumps comprise the largest market share in terms of revenues; however, such pumps, which pose a set of engineering challenges substantially different from those of other pump types, are produced by a number of firms focused on this one product, none of which has a significant presence in other areas of the Russian pump market.

Water Injection Pumps

The Russian water injection pump market, including revenues from aftermarket services and integrated solutions, was RUR 1,294 million, RUR 1,705 million and RUR 1,713 million in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. Overall market revenues for water injection pumps in Russia are expected to increase to RUR 4,443 million with an expected CAGR of 17.2% from 2009-2015, driven by the development of new oil fields and the increasing water cut in the extracted well fluid in depleted fields. See "*Key trends and future growth drivers in the Group's Russian markets*".

Integrated solutions accounted for approximately 20% of overall water injection pump market revenues in 2009, according to Frost & Sullivan and are expected to remain at this level through 2015. Aftermarket sales, which accounted for approximately 13% of overall water injection pump market revenues in 2009, are expected to increase to approximately 21% by 2015, according to Frost & Sullivan.

The charts below set out the historical and expected market revenues in Russia for water injection pumps and associated integrated solutions and aftermarket services for the periods indicated, as well as the key water injection pump providers and their respective market shares (based on pumps sales and excluding revenues from integrated solutions and aftermarket services) in 2009.



Source: Frost & Sullivan

The Russian water injection pump market is dominated by Russian manufacturers, with the Group holding the leading market position with revenues of RUR 673.8 million (or a 59% market share in revenue terms in 2009). The Group has an installed base of approximately 3,900 units in Russia, or nearly 87% of the entire installed base, according to Frost & Sullivan. Key competitors include Nasosy PPD and the Votkinsk plant, which held 10% and 12% of the market in 2009, in revenue terms, respectively. Foreign manufacturers do not currently have a meaningful market presence and are not expected to become a competitive market participant in the foreseeable future due largely to the higher prices of their products.

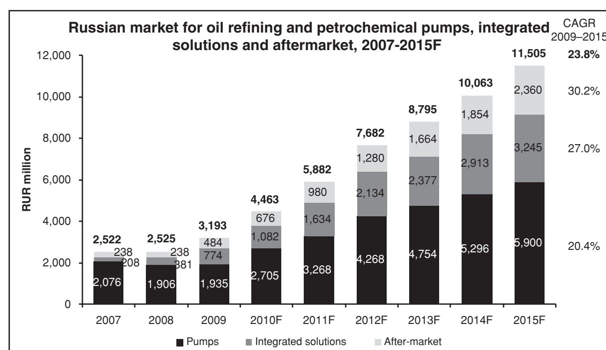
Pumps for Oil Refining and Petrochemicals

The Russian pump market for the oil refining and petrochemicals industries, including revenues from aftermarket services and integrated solutions, was RUR 2,522 million, RUR 2,525 million and RUR 3,193 million in 2007, 2008 and 2009, respectively, according to Frost & Sullivan.

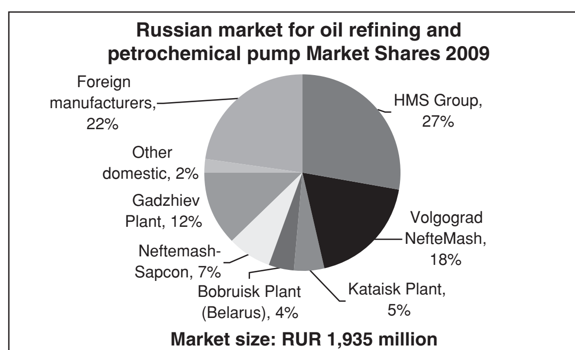
Sales of oil refining and petrochemical pumps and associated integrated solutions and aftermarket services in Russia are expected to reach RUR 11,505 million by 2015, or an expected CAGR of 23.8% from 2009-2015 benefitting from previously described trends in the Russian oil sector. See "*Key trends and future growth drivers in the Group's Russian markets*".

Integrated solutions accounted for approximately 24% of revenues of the overall oil refining and petrochemicals pump market in 2009, according to Frost & Sullivan and are expected to increase to 28% by 2015. Aftermarket sales, which accounted for approximately 15% of revenues of the overall oil refining and petrochemicals pump market in 2009, are expected to increase to approximately 21% by 2015, according to Frost & Sullivan.

The charts below set out the historical and expected market revenues in Russia for oil refining and petrochemical pumps and associated integrated solutions and aftermarket services for the periods indicated, as well as the key oil refining and petrochemical pump providers and their respective market shares (based on pumps sales and excluding revenues from aftermarket services and integrated solutions) in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

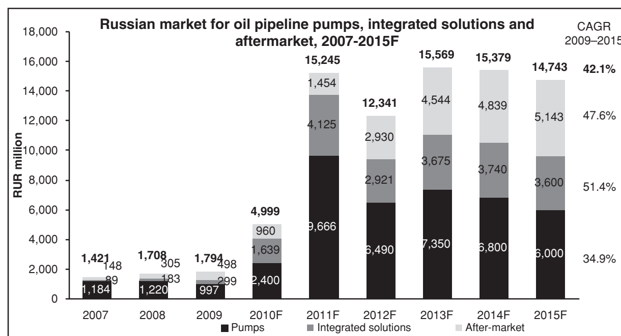
Domestic suppliers provide a substantial portion of the oil refining and petrochemical pumps in Russia. Foreign suppliers (e.g., Sulzer, Bornermann, Finderpompe and Ruhrpumpen) accounted for a cumulative market share of approximately 22%, although none individually held a market share of more than 10% in 2009. The Group increased its market share from 21% in 2007 to 27% in 2009. The increase was attributable to the Group's strong relationships with the large Russian oil companies and expansion and development of its product portfolio both in terms of enhancing existing products and developing new ones.

Pumps for Oil Pipelines

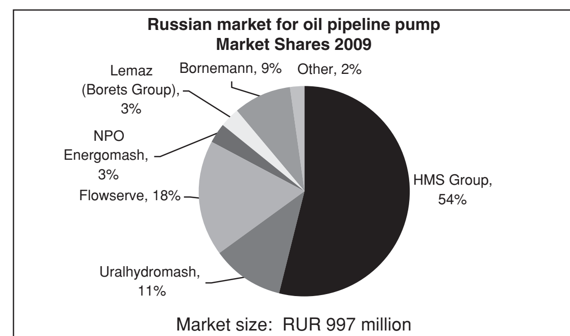
The Russian pump market for oil pipelines, including revenues from aftermarket services and integrated solutions, was RUR 1,421 million, RUR 1,708 million and RUR 1,794 million in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. The sale of oil pipeline pumps and associated integrated solutions and aftermarket services in Russia was stable in 2009, growing only 5% as compared to 2008. However, the market was expected to more than double in 2010, reaching RUR 4,999 million and to grow substantially thereafter, reaching revenues of RUR 14,743 million by 2015, or an expected CAGR of 42.1% from 2009-2015, according to Frost & Sullivan, as large pipeline projects are constructed and existing ones replaced and modernised. See "*Key trends and future growth drivers in the Group's Russian markets*".

Integrated solutions accounted for approximately 17% of revenues of the overall oil pipelines pump market in 2009, according to Frost & Sullivan and are expected to increase to 24% by 2015. Aftermarket sales, which accounted for approximately 28% of revenues of the overall oil pipelines pump market in 2009, are expected to increase to approximately 35% by 2015, according to Frost & Sullivan.

The charts below set out the historical and expected market revenues in Russia for oil pipeline pumps and associated integrated solutions and aftermarket services for the periods indicated, as well as the key oil pipeline pump providers and their respective market shares (based on pumps sales and excluding revenues from aftermarket services and integrated solutions) in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

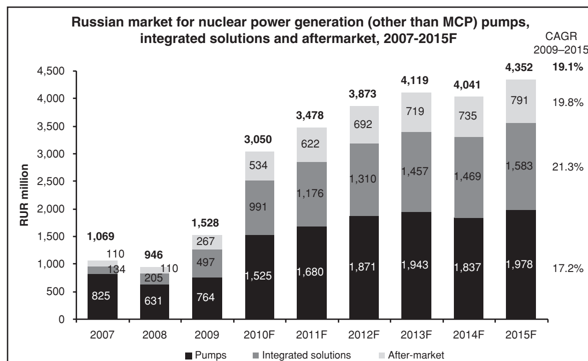
The Russian oil pipeline pump market is dominated by domestic providers. Although foreign pump manufacturers Sulzer and Flowserve do participate in the market, the primary purchaser of such pumps in Russia, the state-owned pipeline monopoly Transneft, has stated that it intends to reduce its reliance on foreign suppliers and purchase equipment and services from domestic suppliers where it is practical to do so, according to Frost & Sullivan. Of the domestic manufacturers, such pumps are a core product only for the Group and Uralhydromash. Furthermore, with an installed base of approximately 1,000 pumps at various Transneft facilities throughout Russia (i.e., nearly 100% of Transneft's installed base), according to the same source, the Group is well positioned to increase its aftermarket services and provide new pumps for an expanded installed base in the future.

Pumps for Nuclear Power Generation (other than MCPs)

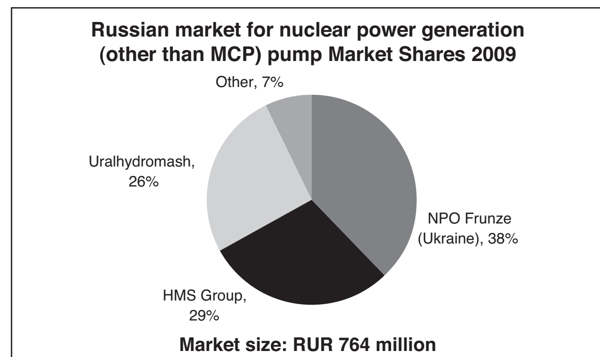
The Russian pump market for nuclear power generation, excluding MCPs, was RUR 1,069 million, RUR 946 million and RUR 1,528 million in 2007, 2008 and 2009, respectively, including revenues from aftermarket services and integrated solutions, according to Frost & Sullivan. According to Frost & Sullivan, the market for nuclear power generation pumps (other than MCPs), including aftermarket services and integrated solutions, is expected to reach RUR 3,050 million in 2010, nearly double the 2009 revenues. According to the same source, revenues are expected to total RUR 4,352 million in 2015, driven by the construction of nuclear power stations in Russia and abroad and the retrofitting of existing nuclear power stations in Russia. See "*Overview of the global pump market—Key trends and future growth drivers in the Group's Russian markets*".

Integrated solutions accounted for approximately 33% of revenues of the overall nuclear power generation pump market in 2009, according to Frost & Sullivan and are expected to remain at a similar level through 2015. Aftermarket sales, which accounted for approximately 28% of revenues of the nuclear power generation pump market in 2009, are also expected to remain at a similar level through 2015, according to Frost & Sullivan.

The charts below set out the historical and expected market revenues in Russia for nuclear power generation pumps, other than MCPs, and associated integrated solutions and aftermarket services for the periods indicated, as well as the key nuclear power generation, other than MCPs, pump providers and their respective market shares (based on pumps sales and excluding revenues from aftermarket services and integrated solutions) in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

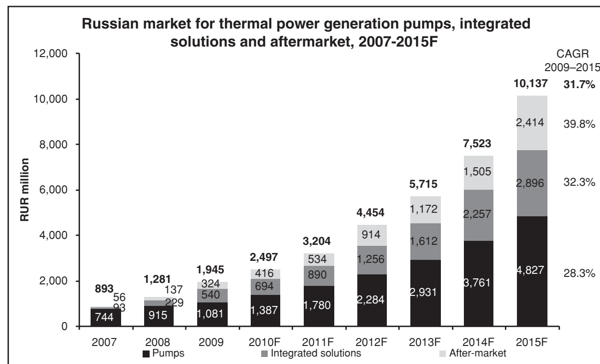
The Russian nuclear power generation (other than MCPs) pump market was until recently exclusively supplied by Russian and certain CIS manufacturers. Although a small volume of pumps has been supplied by foreign manufacturers Sigma and Hyundai, customers tend to prefer incumbent players with a proven track record of providing and deploying reliable equipment, and the market share of these companies remains small. The main players in the Russian market are NPO Frunze, the Group and Uralhydromash. Each of these companies is focused on a particular range of products, resulting in limited competition in relation to individual products. For example, NPO Frunze provides primarily reactor coolant pumps, which the Group does not produce. Because the market is dominated by two key customers (i.e., Rosatom and its subsidiary Atomstroyexport), and the procurement process is complex and lengthy, the market size and share of each pump manufacturer tends to vary in any given year depending on demand for particular specialised pumps.

Pumps for Thermal Power Generation

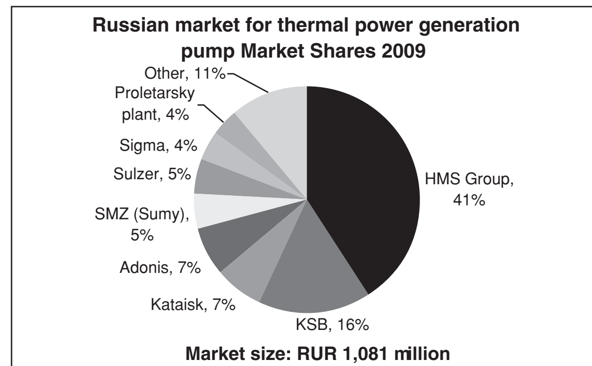
The Russian market for thermal power generation pumps, including revenues from aftermarket services and integrated solutions, was RUR 893 million, RUR 1,281 million and RUR 1,945 million in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. According to the same source, the market for thermal power generation pumps, aftermarket services and integrated solutions is expected to reach RUR 2,497 million in 2010, an increase of approximately 28% compared to 2009 revenues. The market for thermal power generation pumps, aftermarket services and integrated solutions is forecast to reach RUR 10,137 million in 2015, or an expected CAGR of 31.7% from 2009-2015.

Integrated solutions accounted for approximately 28% of revenues of the overall thermal power generation pump market in 2009, according to Frost & Sullivan and are expected to remain at a similar level through 2015. Aftermarket sales, which accounted for approximately 17% of revenues of the thermal power generation pump market in 2009, are expected to increase to approximately 24% by 2015, according to Frost & Sullivan. According to the same source, revenues are expected to total RUR 10,137 million in 2015, benefitting from trends in the Russian power generation sector. See "*Key trends and future growth drivers in the Group's Russian markets*".

The charts below set out the historical and expected market revenues in Russia for thermal power generation pumps and associated integrated solutions and aftermarket services for the periods indicated, as well as the key thermal power generation pump providers and their respective market shares (based on pumps sales and excluding revenue from aftermarket services and integrated solutions) in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

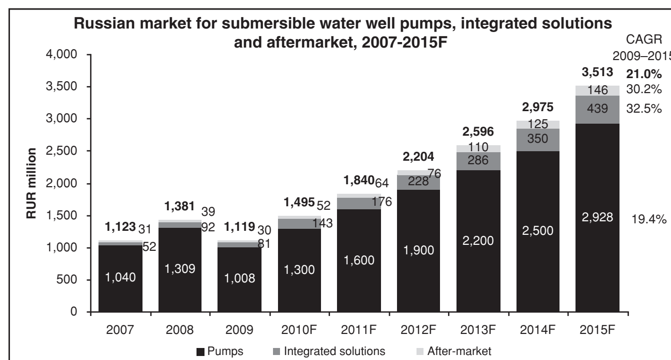
The Russian thermal power generation pump market comprises a substantial number of domestic and foreign manufacturers. Smaller manufacturers without the technical competence of the larger suppliers have a minor presence in the market because they are generally unable to provide customised pumps that meet industry standards, integrated solutions or after-sales support services. According to Frost & Sullivan, KSB and Sulzer are the two foreign suppliers with a significant presence in the market. However, it is unlikely that foreign manufacturers will increase their market share significantly due to the higher prices of their products relative to their Russian-made equivalents. The Group had the largest market share in revenue terms in 2007, 2008 and 2009 and still retains its market leading position. According to F&S, the Group has the largest installed base in Russia, with more than 11,000 units supplied since 1976, which provides the Group with a significant advantage when tendering for aftermarket services and pump replacement business and a platform from which to establish strong relationships with key customers in the sector.

Submersible Water Well Pumps

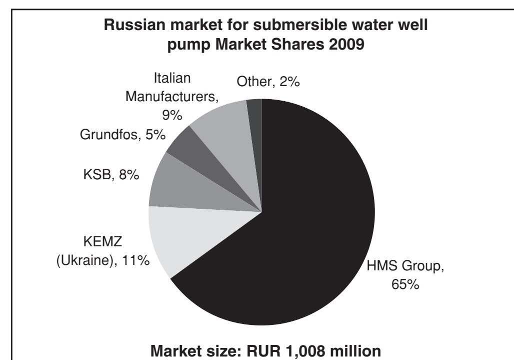
The Russian market for submersible water well pumps, including aftermarket services and integrated solutions, was RUR 1,123 million, RUR 1,440 million and RUR 1,119 million in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 1,495 million in 2010 and then grow to a total of RUR 3,513 million in 2015, with an expected CAGR of 21.0% from 2009-2015 being driven by investment in water infrastructure. See "*Key trends and future growth drivers in the Group's Russian markets*".

Integrated solutions accounted for approximately 7% of revenues of the overall submersible water well pump market in 2009, according to Frost & Sullivan and are expected to amount to approximately 12% by 2015. Aftermarket sales, which accounted for approximately 3% of revenues of the submersible water well pump market in 2009, are expected to remain at a similar level through 2015, according to Frost & Sullivan.

The charts below set out the historical and expected market revenues in Russia for submersible water well pumps and associated integrated solutions and aftermarket services for the periods indicated, as well as the key submersible water well pump providers and their respective market shares (based on pump sales and excluding revenue from aftermarket services and integrated solutions) in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

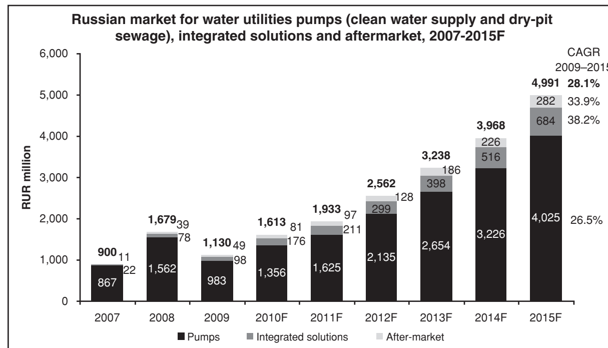
The Russian submersible water well pump market comprises both domestic and foreign suppliers, but the Group holds a substantial leading position in the market over the other market participants with a 65% market share in revenue terms in 2009. The Group's main competitive advantage includes the maintenance of an in-house R&D department that assists in the design and development of a product range comparable in quality to the best international products, at competitive prices. The second largest provider is the Ukrainian Kherson plant (which held an 11% market share in 2009). Manufacturers of submersible water well pumps are beginning to focus and compete largely on life-cycle costs and pump reliability.

Water Utilities (Clean Water Supply and Dry Pit Sewage) Pumps

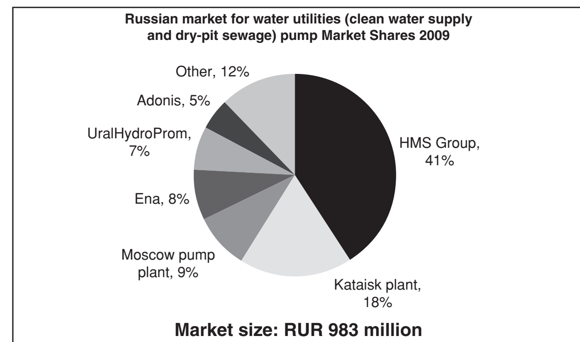
The Russian pump market for water utilities (clean water supply and dry pit sewage), which involves the pumping of clean water through supply systems and sewage to treatment facilities, was RUR 900 million, RUR 1,679 million and RUR 1,130 million in 2007, 2008 and 2009, respectively, including revenues from aftermarket services and integrated solutions, according to Frost & Sullivan. According to the same source, the market for water utilities pumps is expected to reach RUR 1,613 million in 2010, an increase of approximately 42% compared to 2009 revenues. In 2015, the market for water utilities pumps is forecast to reach RUR 4,991 million with an expected CAGR of 28.1% from 2009-2015, with growth being driven primarily by investment in water infrastructure. See "*Overview of the global pump market—Key trends and future growth drivers in the Group's Russian markets*".

Integrated solutions accounted for approximately 9% of revenues of the overall water utilities pump market in 2009, according to Frost & Sullivan and are expected to increase to approximately 14% by 2015. Aftermarket sales, which accounted for approximately 4% of revenues of the water utilities pump market in 2009, are expected to increase to approximately 6% by 2015, according to Frost & Sullivan.

The charts below set out the historical and expected market revenues in Russia for water utilities pumps and associated integrated solutions and aftermarket services for the periods indicated, as well as the key water utilities pump providers and their respective market shares (based on pump sales and excluding revenue from aftermarket services and integrated solutions), in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

The Russian water utilities pump market is fragmented with a large number of manufacturers holding markets shares of between 5% to 10%, according to Frost & Sullivan. Due to the relatively low margins in this sector, foreign manufacturers generally do not participate and the smaller niche manufacturers are expected to continue to lose market share in the near term. The Group's market share has grown in the last three years from 31% in 2007 to 41% in 2009, while its closest competitor, Kataisk Plant, has lost market share during the same period (32% in 2007, as compared to 18% in 2009).

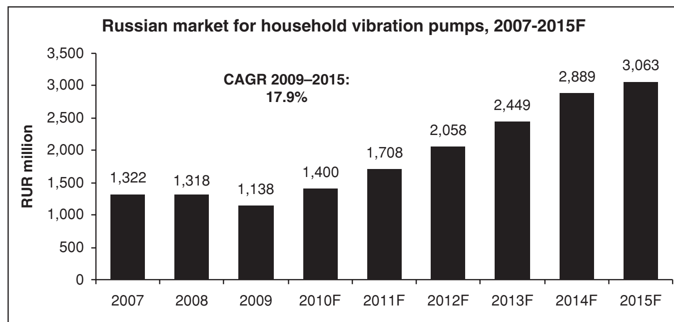
Examples of large scale water utilities projects in Russia include:

- the Federal Programme "Zhilische" (Public Housing) with CAPEX of RUR 620 billion expected between 2011 and 2015;
- the reconstruction of water utilities in Grozny with CAPEX of RUR 105 billion expected between 2010 and 2011; and
- the St. Petersburg Water Utilities Development Programme with CAPEX of RUR 103 billion expected between 2010 and 2025.

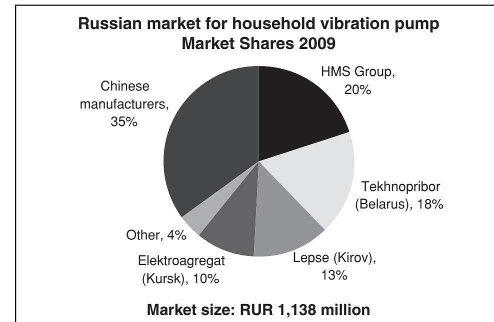
Household Vibration Pumps

The Russian market for household vibration pumps, which are used to pump water within the household water supply systems, was RUR 1,322 million, RUR 1,318 million and RUR 1,138 million in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. Such pumps undergo rapid wear and tear and, as a result, demand for vibration pumps tends to remain stable year-on-year. According to Frost & Sullivan, revenues are expected to total RUR 3,063 million in 2015, or an expected CAGR of 17.9% from 2009-2015. The market is primarily dependent on the general wealth of the population and activity in the private construction sector, and growth is expected to be driven by stable forecast GDP growth and increases in per capita income. Due to the low unit cost and relative technological simplicity of household vibration pumps, servicing tends to be carried out by general plumbing providers, meaning that manufacturers do not provide aftermarket services. In addition, household vibration pumps do not require customisation and do not form part of complex installations, meaning that no revenues are generated from integrated solutions.

The charts below set out the historical and expected market revenues in Russia for household vibration pumps and associated integrated solutions and aftermarket services for the periods indicated, as well as the key household vibration pump providers and their respective market shares in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

The market share of Chinese manufacturers declined substantially to 35% in 2009 from 44% in 2008 and is not expected to increase, as consumers are increasingly seeking better quality products. The Group had a market share of 20% in revenue terms in 2009, making it the second largest competitor in this sector. Its two brands, Rucheek and Malysh, are among the most well-known brands on the Russian market. The third largest competitor, Lepse (Kirov), had a 13% market share in 2009 and is believed to be decreasing its household vibration pump output in order to focus on its core aviation components business.

The Group's market share in its core segments

The combined market size of the Group's core pump segments (defined for the purpose of this calculation as water injection pumps, oil transportation pumps, pumps for oil refining and petrochemicals, nuclear power generation pumps (other than MCP), thermal power generation pumps, submersible water well pumps, water utilities pumps (clean water supply and dry-pit sewage), and household vibration pumps) was RUR 9.21 billion, RUR 10.23 billion and RUR 9.05 billion in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. The Group's market share in these core segments taken together grew from 32% in 2007, 37% in 2008 and reached 41% in 2009 as a result of steady growth in each of its core pump market segments.

Overview Of The Russian Modular Equipment Market

Modular equipment comprises pumping stations, metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation, as well as the water utility sector. Modular equipment is container packaged skid units containing various types of equipment, which can be easily transported and installed within a system of modular units. This type of product is advantageous in remote regions where it is difficult and expensive to perform intensive installation works on-site. In the Russian modular equipment market:

- ***Modular Pump Stations*** contain pumps and other related equipment used for intra-field and trunk oil transportation and water injection.
- ***Automated Group Metering Units*** ("***AGMU***") contain devices that measure oil well flow rates.
- ***Associated Gas Processing and Transport Units*** contain equipment used to pump separated associated gas produced in oil production through gas pipelines to a processing unit or processing plant.
- ***Oil and Gas Metering Units*** contain equipment which analyses on a continuous basis the quantity and sometimes quality of associated and natural gas and oil being transferred in a pipeline.
- ***Oil, Gas and Water Processing Units*** contain equipment used to process oil, gas and water produced from a well, enabling their subsequent utilisation or disposal.
- ***Tubular Furnaces and Line Heaters*** contain equipment used to heat the oil in the pipeline so that the fluid can flow in low external temperatures.
- ***Other Equipment, including*** fire-fighting skids, automation units, chemical dosing units and tanks and vessels used in other modular equipment.

Competitive Environment

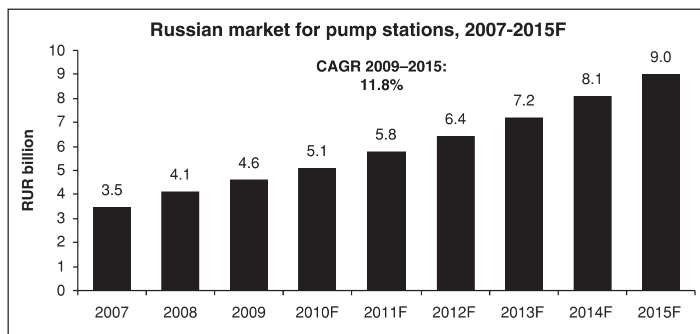
The Russian modular equipment market is dominated by Russian manufacturers. Foreign manufacturers face high transport costs, longer delivery times and customs fees and must overcome long established relationships between the Russian manufacturers and key oil and gas companies to gain greater market share. Moreover, many of the major purchasers of modular equipment prefer to source from Russian manufacturers.

The Group produces modular pumping stations, AGMUs, associated gas processing and transport units, oil and gas metering units, oil, gas and water processing units and other equipment. In the modular equipment market, the Group's core segments include modular pumping stations, AGMUs and associated gas processing and transport units.

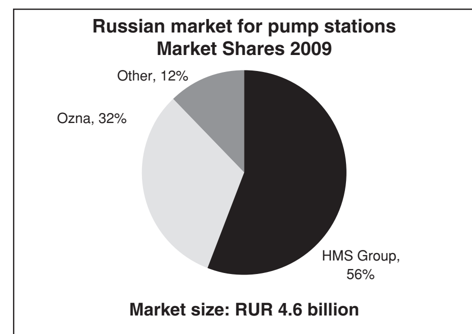
Modular pumping stations

The market revenues for modular pumping stations were RUR 3.5 billion. RUR 4.1 billion and RUR 4.6 billion in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 9.0 billion in 2015, or an expected CAGR of 11.8% from 2009-2015. The growth in demand for modular pumping stations in Russia is expected to be driven principally by greenfield development projects and the construction of pipelines to connect these new oil field developments to the Transneft trunk pipeline network. See "*Key trends and future growth drivers in the Group's Russian markets*".

The chart below sets out the historical and expected market revenues in Russia for modular pumping stations for the periods indicated as well as the modular pumping stations providers and their respective market shares in 2009.



Source: Frost & Sullivan



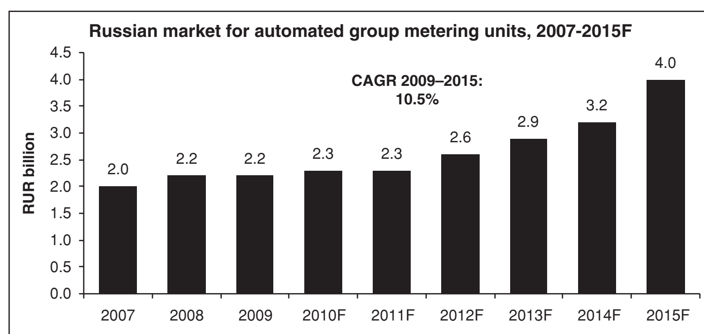
Source: Frost & Sullivan

The two major players in the pump station market are OZNA and the Group. A key competitive advantage of the Group is its ability to integrate its own water injection pumps into the complete pump station solution, allowing product optimisation and enhanced design to meet a customer's specific application requirements.

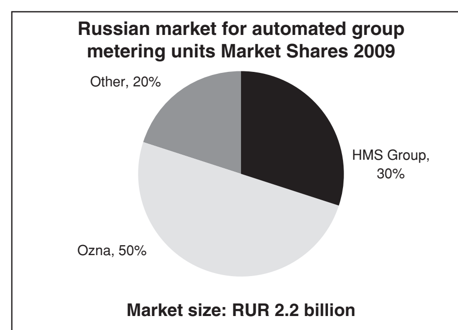
Automated Group Metering Units

Market revenues for AGMUs were RUR 2.0 billion, RUR 2.2 billion and RUR 2.2 billion in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 4.0 billion in 2015, or an expected CAGR of 10.5% from 2009-2015. The growth in demand of AGMUs is expected to come from the introduction of the new "Neftecontrol" system, a draft bill relating to which has been published and, subject to any amendments, is expected to become law in 2011 and impose more stringent requirements on the qualitative and quantitative tolerances of measurement of oil and oil product flows, which will likely result both in demand for upgrades of existing AGMUs and demand for new units. In addition, the development of new oil fields will likely serve as an additional driver for an increased demand in AGMUs.

The chart below sets out the historical and expected market revenues in Russia for AGMU for the periods indicated as well as the AGMU providers and their respective market shares in 2009.



Source: Frost & Sullivan



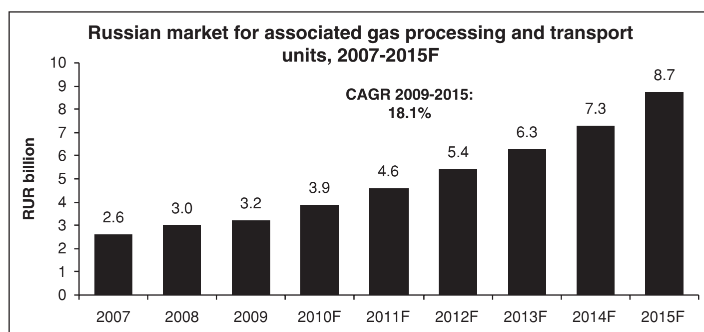
Source: Frost & Sullivan

The AGMU market is relatively concentrated and dominated primarily by Russian manufacturers. The two key suppliers of AGMUs in Russia are OZNA and the Group, accounting for between 80%-90% of the market in 2007, 2008 and 2009, according to Frost & Sullivan.

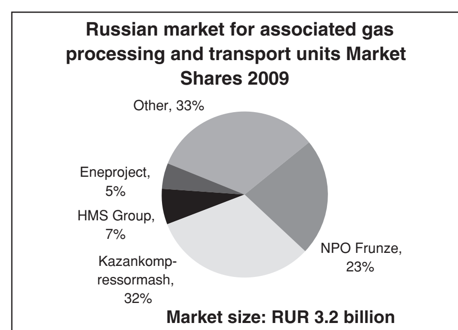
Associated Gas Processing and Transport Units

Market revenues for associated gas processing and transport units were RUR 2.6 billion, RUR 3.0 billion and RUR 3.2 billion in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 8.7 billion in 2015, or an expected CAGR of 18.1% from 2009-2015. Growth in this market will largely be driven by the requirement for 95% of associated gas to be utilised by 2012. Demand will also be driven by the expansion of chemicals facilities using associated gas as a feedstock.

The chart below sets out the historical and expected market revenues in Russia for associated gas processing and transport units for the periods indicated as well as the associated gas processing and transport unit providers and their respective market shares in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

The market for associated gas processing and transport units is comprised mostly of Russian manufacturers with foreign producers accounting for approximately 2% of the market, according to Frost & Sullivan. The three largest suppliers in 2007, 2008 and 2009 were Kazankompressormash, NPO Frunze and the Group.

The Group's market share in its core segments

The combined market size of the Group's core modular equipment segments (defined for the purpose of this calculation as modular pumping stations, AGMUs and associated gas processing and transport units) was RUR 8.1 billion, RUR 9.3 billion and RUR 10.0 billion in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. According to the same source, the Group's market share in these core segments taken together grew from 26% in 2007 to 35% in 2009. The biggest gains in market share for the Group have been in the modular pumping stations and AGMU segments due in large part to its ability to provide integrated solutions offerings, as well as its growing product range.

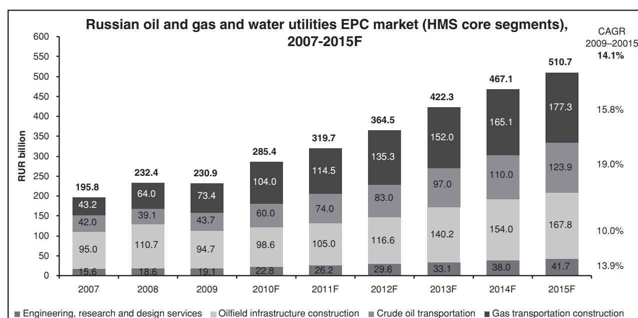
Overview Of The Russian Oil And Gas And Water Utilities EPC Market (HMS Core Segments)

The Group currently provides engineering, design and R&D services for the upstream oil sector, construction services for oilfield infrastructure, construction services for crude oil transportation and construction services for gas transportation, areas which it considers to be synergistic with its other operations, in particular, by improving the Group's ability to offer integrated solutions. In addition, the Group provides EPC services in the water utility sector including design and construction of water supply and waste water systems.

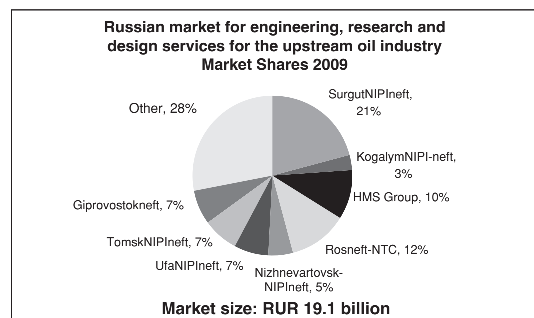
Market revenues for EPC services in HMS's core EPC segments (defined for the purpose of this calculation as engineering, research and design services for the upstream oil sector, oilfield infrastructure construction, crude oil transportation construction and gas transportation construction) were RUR 195.8 billion. RUR 232.4 billion and RUR 230.9 billion in 2007, 2008 and 2009, respectively, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 510.7 billion in 2015, or a CAGR of 14.1% from 2009-2015.

Project design and project management are the most important and complex stages of an EPC project, making the availability of a dedicated in-house research and design center a significant competitive advantage to an EPC contractor. Only contractors with such capabilities can provide a complete service offering from project design and risk assessment to project commissioning and pilot production.

The chart below sets out the historical and expected market revenues in Russia for HMS core segments in EPC for the periods indicated as well as the providers of engineering, design and R&D services for the upstream oil sector and their respective market shares in 2009.



Source: Frost & Sullivan



Source: Frost & Sullivan

Engineering, Research and Design Services for the Upstream Oil Sector

The market revenues for engineering, research and design services for the upstream oil sector were RUR 15.6 billion, RUR 18.6 billion and RUR 19.1 billion in 2007, 2008 and 2009, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 41.7 billion in 2015, or an expected CAGR of 13.9% from 2009-2015. Market growth is expected to be driven by oil sector investment. See "*—Overview of the global pump market—Key trends and future growth drivers in the Group's Russian markets*".

The competitive landscape of engineering, research and design services is very fragmented, with no single player holding a dominant position and this situation is expected to remain for the foreseeable future. As is the case for many EPC segments serving the oil and gas sector, a relatively large portion of the market is accounted for by divisions of large oil and gas companies, which carry out work in-house which elsewhere in the world is typically carried out by third parties. GTNG, a subsidiary of the Group, is one of the largest independent (i.e., not part of an oil company) providers of engineering, research and design services for the upstream oil sector, and is focused on the design of surface infrastructure for oil and gas fields, as well as providing services in relation to certain other products, for example oil and gas transportation infrastructure. The Group had a market share of 10% in revenue terms in 2009, according to Frost & Sullivan.

Oilfield Infrastructure Construction Market

The market revenues for EPC oilfield infrastructure construction were RUR 95.0 billion, RUR 110.7 billion and RUR 94.7 billion in 2007, 2008 and 2009, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 167.8 billion in 2015, or an expected CAGR of

10.0% from 2009-2015. Growth will be driven by investment in existing and new oilfields. See "*—Overview of the global pump market—Key trends and future growth drivers in the Group's Russian markets*" The sector is relatively fragmented. Globalstroyengineering is the market leader of oilfield infrastructure construction services, with a market share of 16% in revenue terms in 2009, according to Frost & Sullivan. The presence of foreign EPC providers is limited and most of the services that they provide are engineering rather than construction. Each of the Group, Globalstroyengineering and Stroytransgaz, has in-house design expertise, giving each of them a competitive advantage over other market participants in this segment of the EPC market. A relatively large portion of the market is accounted for by divisions of large oil and gas companies, which carry out work in-house. Elsewhere in the world this work is typically carried out by third parties, or the former in-house divisions of such companies, which continue to derive a large part of their revenues from the former parent.

Crude Oil Transportation Construction Market

The market revenues for EPC crude oil transportation construction were RUR 42.0 billion, RUR 39.1 billion and RUR 43.7 billion in 2007, 2008 and 2009, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 123.9 billion in 2015, or an expected CAGR of 19.0% from 2009-2015. Growth will be driven by investments in the refurbishment and the increasing of oil pipeline capacity in Russia. See "*—Overview of the global market—Key trends and future growth drivers in the Group's Russian markets*". The competitive landscape for crude oil transportation is dominated by three leading companies, each holding less than a quarter of the total market. These companies are Globalstroyengineering, Stroytransgaz and MezhRegion TruboprovodStroy. A relatively large portion of the market is accounted for by divisions of large oil and gas companies, which carry out work in-house which elsewhere in the world is typically carried out by third parties, or the former in-house divisions of these companies, who continue to derive a large part of their revenues from the former parent.

Gas Transportation Construction Market

The market revenues for EPC gas transportation construction were RUR 43.2 billion, RUR 64.0 billion and RUR 73.4 billion in 2007, 2008 and 2009, according to Frost & Sullivan. According to the same source, revenues are expected to reach RUR 177.3 billion in 2015, or an expected CAGR of 15.8% from 2009-2015.

Investments in new pipelines will drive future demand. Such investments include the North Stream (or Baltic) pipeline and the recently opened Sakhalin pipeline. Other projects that are in the planning stage include Shtokmanovskoye to Teriberka, South Stream pipeline and Murmansk to St. Petersburg.

The gas transportation market is more specialised than other EPC markets. The key dedicated gas transportation facility construction companies MezhRegion TruboprovodStroy, Stroygazmontaz and Centrgaz together held more than a 55% market share in revenue terms in 2009, according to Frost & Sullivan. The growth reflects the Government's policy of expanding gas infrastructure in the east of the country as well as the construction of infrastructure for exports of gas to new markets in Asia.

The Group's market share in its core segments

According to Frost & Sullivan, the Group had a market share of 3% in revenue terms in each of 2007, 2008 and 2009 in its combined core EPC segments (defined for the purpose of this calculation as engineering, research and design services for the upstream oil sector, oilfield infrastructure construction, crude oil transportation construction and gas transportation construction).

BUSINESS

Overview

The Group is the leading pump manufacturer and provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utility sectors in Russia and the CIS. According to Frost & Sullivan, in 2009 the Group had a 41% market share in Russia (by revenues) in its core industrial pumps segments, a 35% market share in Russia (by revenues) in its core modular equipment segments and a growing presence in its core EPC segments. The Group's products are mission-critical elements of projects across a diverse range of industries. The Group has participated in a number of large-scale infrastructure projects in Russia, including providing pumps and modular equipment to the Vankor oil field and pumping stations for the ESPO oil pipeline.

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

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

The Group's diversified business model and leading position in its core markets, as well as the sustained demand for many of its products and services allowed the Group to continue to increase revenues and maintain profitability, despite the effects of the global economic downturn, which negatively impacted the global and Russian economies in the second half of 2008 and throughout 2009. As set out in the table below, for the year ended 31 December 2009, the Group's consolidated revenues increased by 4.8% and Adjusted EBITDA increased by 15%, as compared to the year ended 31 December 2008. For the nine months ended 30 September 2010, the Group's consolidated revenues increased by 65%, total comprehensive income increased by RUR 1,076,271 thousand, and Adjusted EBITDA increased by 58%, as compared to the nine-month period ended 30 September 2009. The Group has prepared the Adjusted EBITDA information discussed herein based on its IFRS accounting records which are the basis of the Group's audited or reviewed financial statements for the relevant period. See also "*Selected Consolidated Historical Financial Information*", including a reconciliation of Adjusted EBITDA to the Group's operating profit under IFRS, and "*Presentation of Financial and other Information—Non-IFRS Information*".

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
				(unaudited)	
			RUR thousands		
Revenue	13,399,356	14,046,245	14,772,269	9,775,040	16,157,721
Total Comprehensive income	104,292	(16,312)	13,931	(51,153)	1,028,348
Adjusted EBITDA[(1)]	1,423,168	1,643,861	1,890,408	1,421,356	2,251,411

(1) Unaudited.

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

- *Industrial pumps:* The Group designs, engineers, manufactures, delivers and installs industrial pumps and related products for use primarily in the oil and gas, power generation and water utility sectors, as well as in a variety of applications in other sectors. The industrial pumps unit's principal products include ready-made pumps built to standard specifications, customised pumps and pump equipment and integrated pump systems. As the Group has developed, it has increasingly focused on higher-margin products and services in the pump sector, particularly on bespoke, highly engineered pumping

equipment and integrated pump systems built on a turn-key basis. The industrial pumps business unit also provides aftermarket sales, maintenance and repair services and other support for its products.

- *Modular equipment:* The Group designs, engineers, manufactures and installs pump stations, metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation, as well as for the water utility sector. The modular equipment unit's products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers, delivered to and installed on the customer's site as a modular but fully integrated part of the customer's operations. The modular equipment unit also provides aftermarket sales, maintenance and repair services and other support for its products.
- *EPC:* The Group designs, engineers, project manages and constructs projects, including on a turn-key basis, for customers in the upstream oil and gas, oil transportation and water utility sectors. In June 2010, the Group acquired a controlling stake in GTNG, a leading independent Russian R&D centre, focused on the design of the surface infrastructure of oil and gas fields.
- *Other.* The Group earns other revenue from the rent of equipment and non-operating income.

The table below sets out the Group's revenue and Adjusted EBITDA for each of the Group's business units for the years ended 31 December 2007, 2008 and 2009 and for the nine months ended 30 September 2009 and 2010 based on IFRS accounting records which are the basis of the Group's audited or reviewed financial statements for the relevant period. See also "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Basis of Preparation of the Consolidated Financial Statements and Financial Information*." For a discussion on the Group's segment information prepared under IFRS 8, *Operating Segments*, see Note 36 to the Annual Financial Statements, Note 32 to the Interim Financial Statements and Note 32 to the Company Interim Financial Statements.

	Year Ended 31 December						Nine months ended 30 September	
	2007		2008		2009		2010	
	External revenues	Adjusted EBITDA	External revenues	Adjusted EBITDA	External revenues	Adjusted EBITDA	External revenues	Adjusted EBITDA
				(Unaudited) RUR thousands				
Industrial pumps	6,189,039	685,861	4,577,893	822,030	6,308,064	1,011,886	7,574,961	1,501,760
Modular equipment	3,534,223	501,103	4,125,655	528,762	4,166,176	786,462	4,056,369	422,258
EPC	3,614,097	248,738	5,204,376	254,794	4,188,738	33,342	4,392,305	262,251
Other	61,997	(10,511)	138,321	68,463	109,291	2,866	134,086	81,602

Competitive Strengths

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

Attractive industry fundamentals. The Group's industry and the markets in which it competes are supported by a number of long-term global macroeconomic trends, economic growth in Russia and the CIS and specific factors driving demand from the Russian oil and gas, power generation and water utility sectors.

- *Oil and other commodities prices.* Historically, prices for oil have been an important driver of demand from the oil and gas sectors for the Group's products and services. The recent resurgence in commodities prices has led to increased capital expenditures in those sectors for the Group's products and services and is expected to continue to do so.
- *Increased investment in Russian infrastructure.* Underinvestment in Russian infrastructure since the fall of the Soviet Union, including in the oil transportation, power generation and water utility sectors, has created an acute need to replace and upgrade existing infrastructure and create new capacity to meet demand driven by economic growth in Russia, driving demand for the Group's industrial pumps, modular equipment and EPC and related services.
- *State support.* In order to modernise and expand capacities in the oil and gas transportation, power generation and water utility sectors, the Government has provided support for increased capital expenditures by companies in which it owns significant or controlling stakes, including Transneft, Rosatom and various water utilities, all of which are major clients of the Group. The Group is involved in Transneft's construction of the ESPO oil pipeline and Rosatom's construction of a new generation of nuclear power stations in Russia and overseas and retrofitting of existing nuclear power

stations. In addition, the Government has provided support for oil field developments in new regions, such as Eastern Siberia, and unconventional oil resources, the exploitation of which is more capital intensive, by introducing a more favourable tax regime. According to Frost & Sullivan, the Government is expected to undertake further reform of the current tax system in order to encourage the development of greenfield projects and further investment into already developed oil assets.

- *Increased investment in greenfield and developed oil and gas assets and associated transport infrastructure.* Oil fields in Russia's key production regions are maturing, and recent years have seen the beginning of intensive development of oil fields in Eastern Siberia, together with investment in oil pipeline infrastructure to connect these new developments to the existing pipeline network. Eastern Siberia is a remote region with limited infrastructure and a harsh operating environment and as a result the development of its oilfields is substantially more capital intensive than development in Russia's more established oil regions, such as Western Siberia. New developments in established regions are expected to increasingly involve resources which are more difficult and capital intensive to exploit, such as heavy oil and oil from deeper reservoirs. In addition, increasing field depletion is expected to increase the capital intensity of production at Russia's established oil fields. These trends are expected to continue to drive demand for the Group's industrial pumps, modular equipment and EPC and related services used in the production and transport of oil.

- *Increasing demand for integrated solutions.* In recent years, there has been strong growth in demand globally for integrated solutions, and the growth of demand for integrated solutions in Russia is further supported by additional Russia-specific factors. In particular, while capital investment since the end of the Soviet Union has largely focused on the replacement of Soviet-era equipment, recent years have seen an increasing number of large, complex greenfield development projects, and such projects are expected to account for an increasing share of investment in the industries that the Group serves going forward. This trend has driven a significant increase in demand for integrated solutions and other complex and highly-engineered products and services, and demand for such integrated solutions and products and services is expected to continue to grow. The trend towards integrated solutions favours larger flow control solutions providers with a broad range of products and advanced R&D facilities, like the Group, as they are able to develop and manufacture a larger proportion of the integrated solutions components in-house and to develop more complex solutions.

- *Increasing demand for aftermarket services.* Aftermarket services have historically formed a smaller proportion of Russian pump manufacturers' sales than globally, with most repair and maintenance services performed by large customers in-house. However, there has recently been an observable trend towards outsourcing of these aftermarket services. In addition, an increasing focus on energy efficiency by pump users, driven by rising energy prices (the Group estimates that energy typically represents 80% of the costs of operating an industrial pump), has also driven demand for aftermarket services. Aftermarket services typically provide stable revenues and high margins.

- *Low sensitivity to short-term economic downturns.* The Group's products are often mission-critical components for large-scale, complex systems and projects. Such products and related maintenance, repair and support services are therefore not discretionary items. Partly as a result of these factors, the Group was able to maintain revenue growth even during the recent global economic downturn, with revenues increasing by 5.2%, from RUR 14,046,245 thousand for the year ended 31 December 2008, to RUR 14,772,269 thousand for the year ended 31 December 2009.

Leading market positions in core segments. The Group is the leading provider of pumps to the oil and gas, power generation and water utility segments of the Russian pump market by revenues, has a leading position in the Russian modular equipment market and a growing presence in the Russian EPC market.

- *Leader in industrial pumps for the oil and gas, power generation and water utility sectors.* According to Frost & Sullivan, in 2009 the Group was the largest provider of industrial pumps and services in Russia in its core pumps segments (defined for the purposes of the calculation of market information as: water injection pumps, oil transportation pumps, pumps for oil refining and petrochemicals, nuclear power generation pumps (other than MCP), thermal power generation pumps, submersible water well pumps, water utilities pumps (clean water supply and dry-pit sewage), and household vibration pumps), with total market revenues in those segments amounting to RUR 9.05 billion for the period. The Group accounted for approximately 41% in these segments and approximately 7% of the overall Russian industrial pump market for the period, according to Frost & Sullivan.

- *Largest installed base of industrial pumps and strong brands.* The Group has an extensive installed base of industrial pumps, which provides a natural market for the Group's aftermarket sales and services,

including maintenance and repair services, as well as sales of upgrades and replacements. These aftermarket services typically provide stable revenues and high margins. For example, the Group's installed base includes over 1,000 Transneft pumps (approximately 98% of Transneft's total pumps), more than 4,000 water injection pumps (over 80% of the total number currently in use in Russia) and over 6,000 pumps used in nuclear power stations in Russia (approximately 20% of the total number, but significantly more in relation to certain types of pumps), according to Frost & Sullivan. The installed base also provides the Group with significant opportunities to enhance customer relationships and cross-sell other products and services. In addition, the Group has established strong brand recognition as a supplier and manufacturer of industrial pumps in Russia and certain CIS markets and primarily in mid- and large-size customised pumps, where reputation for quality is important for attracting new customers and retaining existing ones.

- *Leader in modular equipment.* The Group is also one of the leading manufacturers of modular equipment for the oil and gas and water utility sectors, with revenues of RUR 3.5 billion in its core market segments in 2009, which accounted for approximately 35% of those core market segments, which include pumping stations, automated group metering units and associated gas processing and transport units, in Russia, according to Frost & Sullivan.
- *Growing presence in synergistic EPC services; leader in oil field project design.* The Group has a growing presence in the market for certain EPC services for the oil and gas industry and the water utility sectors, which the Group believes have strong synergies with its industrial pumps and modular equipment businesses, in particular, in allowing the Group to offer complex integrated solutions. The acquisitions of RVKP, a project design firm for the water utility sector, in 2008 and GTNG, a leading independent Russian R&D centre, focused on the design of the surface infrastructure of oil and gas fields, in June 2010, have significantly enhanced the Group's project design and engineering capabilities. According to Frost & Sullivan, the Group had a 10% share of the Russian oil and gas field project design market in 2009.
- *Significant barriers to entry.* The Group benefits from high entry barriers in the Russian flow control solutions market. The incumbent players, including the Group, have established strong relationships with their customers that have been forged over the long-term, creating a significant barrier to entry for any competitor seeking to break into the Russian market. In addition, certain players, for example the Group, benefit from a very large installed base, which provides them with a significant advantage in relation to contracts for the replacement of equipment, as well as equipment for new contracts. The necessity to establish a comprehensive after-market services presence, with facilities located at reasonable proximity to customer sites, also represents a major barrier for foreign manufacturers given the size of the country. Foreign manufacturers face an additional barrier in that their equipment tends to be incompatible with customer systems in Russia due to different engineering standards in Russia and the CIS. This makes local engineering expertise a key determining factor in the tender process. Language and cultural barriers are also barriers to entry by foreign competitors.

Advanced R&D capabilities. The Group operates five unique R&D facilities, which are responsible for conducting research and designing new products and specialised applications for existing modular and pump equipment and which include a pump testing facility, which is the largest in the CIS and one of the largest in the world. In addition, the Group has design departments within its production facilities, which are responsible for upgrades, customisation and enhancements of existing equipment. The Group coordinates its R&D activities centrally to ensure that R&D know-how is shared effectively among all of the Group's subsidiaries and the Group's R&D personnel are fully integrated with the Group's sales activities. The Group's R&D facilities and design departments are well recognised in the industry for consistently designing reliable and highly effective equipment, including customised solutions. For complex, large-scale projects that involve a high degree of equipment customisation, customers work closely with the Group's R&D teams to develop product specification and project documentation during the pre-tender phase. This enables the Group to build strong relationships with customers and is both a major competitive advantage and a barrier to entry. In addition, the Group's R&D capabilities allow it to develop integrated solutions and other complex and highly engineered products and services.

Diversified and well-established customer base consisting of blue-chip companies in a range of uncorrelated sectors. Over a period of more than 40 years, the Group and its predecessors have developed a customer base which includes many market leaders, as well as other participants, in the Group's core market segments. In 2007, 2008, 2009 and the first nine months of 2010, the Group's top five customers accounted for 37%, 41%, 43% and 56%, respectively, of the Group's revenues, with the remaining revenues shared among

more than two thousand other customers. The Group's broad product and services offerings enable it to serve a diversified customer base in a range of sectors, including the oil and gas transportation, oil production, power generation and water utility sectors.

- *Exposure to wide range of uncorrelated sectors of the Russian economy.* The Group's products and services are used in a wide range of sectors, including the oil production, oil and gas transportation, oil refining, thermal and nuclear power generation, water utility, mining and metallurgy, chemical and petrochemical sectors. As a result of this diversified business model, the Group is less exposed to a downturn in a particular sector.
- *Well-established base of blue chip customers.* The Group provides pumps, modular equipment and related services, as well as EPC services, to a number of major Russian oil and gas companies, including Rosneft, Transneft, TNK-BP, Surgutneftegaz, Gazprom Neft, Lukoil and Novatek, as well as medium-sized and independent oil and gas companies. In the power generation sector, the Group manufactures and supplies specialised pumps for nuclear power generation to Rosatom and Atomstroy-Export, state-owned companies specialising in the construction of nuclear power stations in and outside of Russia. The Group also provides specialised pumps to public utilities companies in Russia and the CIS that provide water and drainage services. Certain of the Group's customer relationships have existed for over 40 years. In addition, the Group has established relationships with major dealers and distributors of its products (mainly standard pumps), some of which act as exclusive distributors for the Group's products and also provide maintenance and repair services for its products.
- *Broad sales platform.* The Group has an extensive sales team of approximately 200 people, located in Moscow and the regions in which its customers operate. The sales team aims to establish contacts at several levels of a customer's business, from senior management to heads of production and procurement and chief engineers. This enables the Group to develop a better understanding of its customers' needs and to target cross-sales and integrated solutions at key decision-makers. The Group's sales efforts are supported throughout by the Group's R&D teams.
- *Integrated solutions.* The Group's wide range of products and services and R&D capabilities enable it to offer integrated solutions incorporating the design, manufacture, procurement, delivery, installation and commissioning of all equipment required for the execution of a project. The Group believes that many of its customers prefer to work with integrated solutions providers since working with a single project partner tends to reduce the time required for engineering, procurement and system engineering, simplifying administration and project management and reducing the risk of compatibility issues, which results in lower overall project costs. For the Group, integrated solutions contracts tend to be considerably more profitable.
- *Aftermarket sales and services and cross-selling of other products manufactured by the Group.* The Group has an extensive installed base, which requires periodic maintenance. For example, over 1,000, or approximately 98% of Transneft's trunk oil pipeline pumps were supplied by the Group's entities, according to Frost & Sullivan and of all the pumps installed at nuclear power stations in Russia and the CIS between 1976 and 2009, approximately 6,000, or 20%, were supplied by the Group's entities. This installed base provides the Group with a natural market to which to sell maintenance and repair services as well as spare parts, upgrades and replacement products. It also provides the Group with the opportunity to cross-sell other products to these customers.

Operational and product quality excellence.

The Group maintains strong focus on the quality of its products. The Group's key facilities are certified ISO:9001:2008 compliant and certain of the Group's products are compliant with API 610 standard. The Group's products include high-precision, safety-critical equipment for hazardous facilities, such as nuclear plants, refineries, pipelines and others.

For critical manufacturing processes, the Group acquires state-of-the art equipment from established foreign producers, including Skoda, Schiess, Doosan, Demag, Schenk, Sodik, Ibarmia and others.

The Group's design teams use the most recent versions of professional design software, such as SolidWorks and ANSYS CFX, for the design of pumps and modular equipment and Bentley and Primavera for the design and project management of oil and gas field development. In addition, the Group has purchased a new 32-digit processing unit, which has increased the speed at which it is able to carry out calculations by

15-20 times. The Group is also in the process of implementing a unified, group-wide accounting system, 1C8 and an enterprise resource planning system, Infor LN (BAAN).

Resilient financial growth and strong backlog.

Over the past few years, the Group has enjoyed resilient revenue and Adjusted EBITDA margin growth, including before, during and subsequent to the global economic downturn. For the nine months ended 30 September 2010, the Group's revenue increased by 65%, as compared to the same period in 2009. In addition to revenue growth, the Group's estimated backlog increased by 117%, from RUR 9.5 billion as of 31 December 2009 to RUR 20.6 billion as of 30 September 2010. Of the Group's estimated backlog as of 30 September 2010, more than 50% comprised orders for trunk oil pipelines and nuclear power pumps, which are highly customised and typically provided as part of integrated solutions contracts. See "*Presentation of Financial and Other Information—Backlog*" for a discussion of the Group's methodology for calculating backlog, and in particular, of the inherent limitations in comparing backlog estimates as of two separate dates. See also "*Risk Factors—Risks Relating to Financial and Accounting Matters and Internal Controls—The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between period, may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS*".

Strong management team with established track record of growing the business organically and through acquisitions. The Group's management team has been leading the Group since its inception and has an established track record of growing the business organically as well as identifying, acquiring and integrating value-enhancing businesses and assets successfully into the Group's existing business. Since 2003, the Group's management has executed its strategy of developing from a trader and servicer of pumps to a fully fledged manufacturing company, offering integrated solutions to its customers that comprise design, manufacture and installation of integrated systems, as well as project management.

Strategy

The Group seeks to achieve continued organic growth by focusing on its higher margin integrated and highly engineered solutions, capitalising on positive industry trends and improving its overall operational efficiency. The Group also intends to leverage its research and development capabilities to develop next-generation customised pumps, technological upgrades and integrated pumping systems, as well as improve its integrated solutions offerings. In addition, the Group will continue to pursue selective, value-enhancing acquisitions which enable it to enter attractive new markets, provide access to complementary technology and research and development facilities and which offer cost and revenue synergies with its existing businesses.

Focus on integrated solutions and other highly-engineered products. The Group's broad range of products and services enables it to offer integrated solutions to its customers, comprising the design, manufacture, purchase, installation and servicing of complex, highly engineered flow control systems. The Group anticipates that many of its largest customers, particularly in the oil and gas sectors, will continue to seek to work with manufacturers that can offer integrated solutions, and that demand for such solutions will increase. See "*Industry Overview—Overview of the global pump market—Key trends in the global pump market—Integrated solutions*". In addition, the provision of integrated solutions and other highly engineered products tends to offer higher margins than stand-alone products and services, and often require extensive interaction with customers and involve customised products, providing an opportunity to strengthen customer relationships and a strong base for aftermarket sales. The Group therefore plans to focus on growing its integrated solutions offerings.

Leverage and strengthen the Group's market position to benefit from growth factors in the Group's current core markets, and to expand and diversify into new markets. The Group intends to further penetrate its key markets through the diversification and enhancement of its product portfolio, including the development and production of next-generation pumps and enhanced aftermarket sales and support. For example, there has been a significant lack of investment in the oil transportation, power generation and water utility sectors in Russia and the CIS during the past twenty years and the Group anticipates that the ongoing modernisation of this infrastructure will continue to foster growth in the market for pumps and modular equipment. The Group also intends to strengthen its positions in other growing markets, such as the chemical and metallurgy sectors of the Russian pump market, which it anticipates will offer significant growth opportunities. The Group also plans to increase the share of customised pumps, which offer higher

margins than standard pumps, in its product portfolio. In the modular equipment market, the Group plans to expand its range of pumping stations to include more higher margin, customised pumping stations and to increase its share of the maintenance and repair services markets and metering devices for measuring flow rates of oil and associated gas. The Group also plans to target certain oil refining equipment, such as vessel equipment, compressor units and associated gas processing equipment to take advantage of attractive trends in these markets. To further capture market share, the Group intends to increase cross-selling of its products and services to large oil and gas and other industry customers, with many of whom it has already established long-term relationships. The Group also plans to increase its share of products for export, principally to countries of the former Soviet Union or markets with historic links to the former Soviet Union and which used or still use Soviet-era pump equipment. In particular, such export markets include the water utility sector in the former Soviet Union, the oil sector in Kazakhstan and Iraq and the nuclear power generation market.

Enhance R&D capabilities. The Group intends to expand its R&D capabilities leveraging the experience and knowledge base of its existing teams. In addition, the Group intends to apply additional resources to monitor the product offerings of the markets in which it operates and to ensure that its R&D division is in a position to develop upgrades and new solutions. The Group will also seek to improve its pump technology by investing in continued research, in order to produce more energy efficient pumps. Finally, the Group intends for its R&D teams to work more closely with customers in order to develop technical policies and standards that will enable customers to improve the efficiency of their operations.

Improve operational efficiency. The Group seeks to further integrate its current assets. The Group is implementing standardised operational and organisational processes for financial reporting, R&D, procurement, and information technology across the Group to ensure that these functions are executed efficiently and consistently. Furthermore, the Group expects to target further investment at increasing capacity and modernising and upgrading equipment at certain production facilities.

Pursue selective, value-enhancing acquisitions. The Group intends to make selective, value-enhancing acquisitions, targeting businesses that offer complementary products, provide the opportunity to expand into high growth markets and regions and improve the Group's core competencies. In furtherance of this strategy, the Group is currently considering acquisition opportunities in the CIS, which would enable it to increase its presence in those markets. The Group's acquisition strategy is also aimed at identifying attractive acquisition opportunities in high-growth sectors in which its market presence is currently limited, including pumps for the mining, oil refining, chemical and metallurgy sectors. The Group believes that its experienced management team, strong financial position and the fragmented nature of the industrial pumps, modular equipment and EPC markets in Russia and the CIS will allow it to continue to identify and acquire attractive assets that complement and further diversify its existing product and services portfolio. The Group intends to target acquisitions that will offer significant cost and revenue synergies. The Group also intends to increase its ownership interests in, and seek control of, certain of its associate companies that demonstrate consistently strong financial results and growth potential.

HISTORY AND DEVELOPMENT

The Group was formed in 1993 with the establishment of Hydromashservice, a trading company that distributed pumps and pumping equipment in Russia and the CIS. In 2003, the Group began acquiring companies with pump manufacturing facilities in Russia, modular equipment production facilities and engineering and construction companies. For further information relating to the corporate history of the Group, see "*Information relating to the Company and HMS Group*". The timeline below sets forth key events in the Group's history, as well as the Group's participation in a number of high-profile projects.

1993 Pump trading and servicing company was founded by German Tsoy, Artem Molchanov and Kirill Molchanov.

The Group expanded its operations and client base to become a leading distributor of pumps and pumping equipment in Russia and the CIS.

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

1995 The Group launched a pump assembly business.

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

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

The Group supplied pumps for the Baltic Pipeline System.

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

2006 The Group became a leading manufacturer of submersible pumps through the acquisition of Livnynasos, one of the largest producers of submersible electric water pumps in the CIS.

The Group acquired operational control over Tomskgazstroy, a provider of construction services for oil and gas pipelines. Its results of operations were consolidated into those of the Group in 2007.

The Group launched its maintenance and repair business through the acquisition of NRS.

2007 The Group entered the EPC market through the acquisitions of SKMN, a provider of integrated EPC services for the development, construction and installation of oil field facilities.

The Group acquired a minority stake, with an option to purchase a controlling stake in 2012, in DGKhM, a manufacturer of pumps and vessel equipment and increased its R&D capabilities through the acquisition of a 49% stake in VNIIAEN, a R&D centre, the only one of its kind in the CIS, which specialises in pumping equipment for the nuclear power generation and oil transportation industries.

2008 The 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;
- Hydromash-Industriya, a designer of pumps used in the nuclear power industry;
- NPO Gidromash, a manufacturer of pumps for the thermal power generation and oil and gas industries; and
- RVKP, a leading project design facility for the water utility sector.

2009 The Group enhanced its position in the water utility, power generation and oil and gas sectors through the acquisition of SibNA, a manufacturer of high-precision measuring equipment for the oil and gas, power generation and water utility sectors.

The Group participated in the Vankor oil field development and the Baltic Pipeline System project.

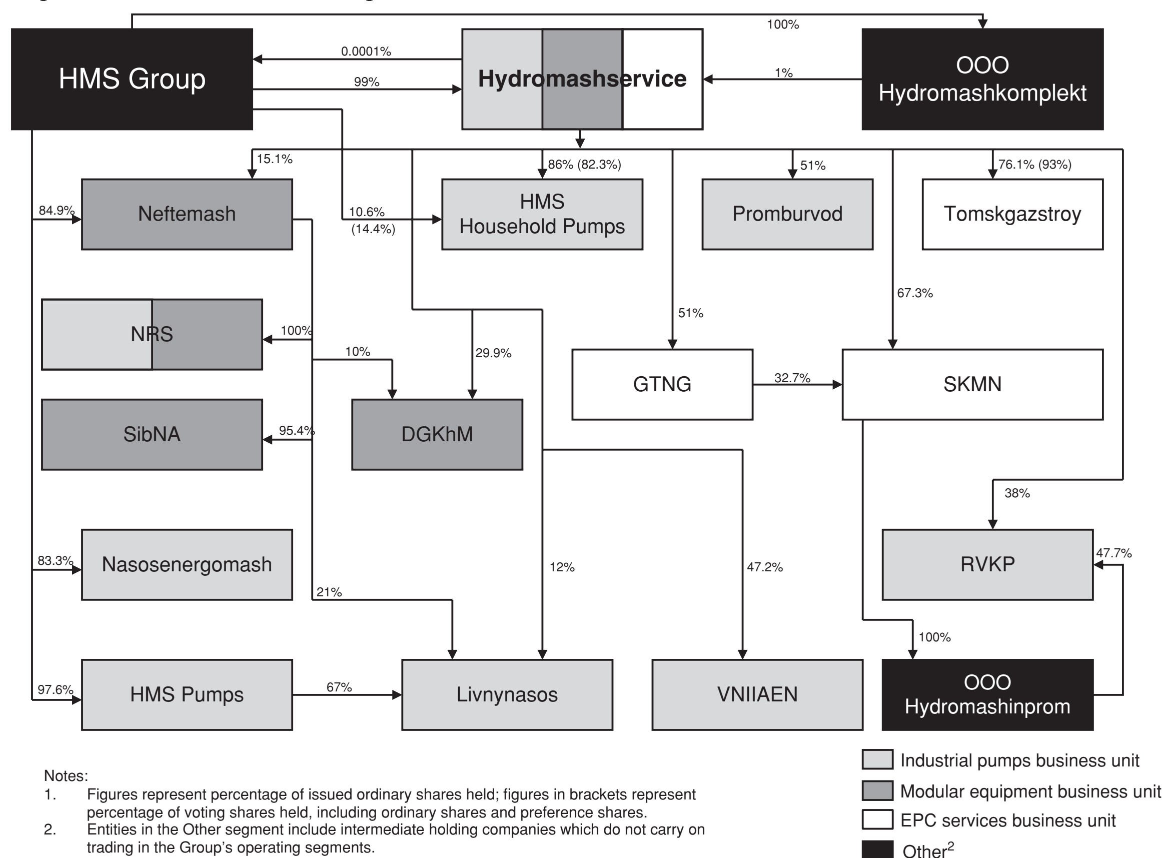
2010 The Group enhanced its design and R&D capabilities and its position in the EPC market through the acquisition of 51.0% of the voting shares of GTNG, a leading independent Russian R&D centre focused on the design of the surface infrastructure of oil and gas fields.

The Group participated in the ESPO-1 pipeline expansion project and the construction of the ESPO-2 pipeline.

The Group commenced large-scale production of pumps for use in nuclear power generation.

ORGANISATIONAL STRUCTURE

The diagram below sets out an organisational structure of HMS Group's principal operating subsidiaries and associates by business unit, as well as the percentage of voting shares owned or controlled by HMS Group as at the date of this Prospectus.



For information related to the corporate history of the Group, see "*Information relating to the Company and HMS Group*".

PRODUCTS AND SERVICES

Industrial pumps business unit

The Group's industrial pumps business unit designs, engineers, manufactures and sells a diverse range of pumps, from standard, mass-produced pumps to fully customised pumps and integrated solutions, to customers in the oil and gas, power generation and water utility sectors in Russia, the CIS and abroad. The Group also provides repair and maintenance services in respect of its pumps.

Product/service	Core market segments	Price	Production time
Customised pumps	Nuclear and thermal power generation pumps.	RUR 1 to 30 million	6 to 12 months
	Trunk oil pipeline pumps.		
	Oil field pipeline and water injection pumps.		
	Water supply and waste water pumps.		
	Submersible water well pumps.		
	Oil refining and petrochemical pumps.		
Standard pumps	Water supply and waste water pumps.	Less than RUR 1 million	Less than 3 months
	General industrial pumps.		
	Household vibration pumps.		
Service and repair	Repair and maintenance services.	Dependent on type of repair or servicing rendered	N/A

Customised pumps are considerably more expensive than standard pumps because they are tailor-made to unique specifications provided by the customer. The Group generally earns significantly higher margins on customised pumps than the standard pumps that it sells. According to Frost & Sullivan, EBITDA margins for standard pumps are less than 15%, whereas pumps and related equipment provided as part of integrated solutions typically have an EBITDA margin in excess of 30%. The Group also designs and manufactures complete pumping systems, tailored to the specific requirements of its customers that can be installed by either the Group or the customer. According to Frost & Sullivan, pump-based systems typically have an EBITDA margin of between 15% and 30%. According to the same source, the Group had a 41% share (by revenues) in its core pump segments in Russia in 2009. The Group's core pump market segments include water injection, oil refining and transportation, submersible water well, water supply and waste water, household vibration, nuclear and thermal power generation pumps.

In addition, the Group provides repair and maintenance services to its installed base of pumps.

Modular equipment business unit

The Group designs and manufactures modular equipment and provides maintenance and repair services to customers in the oil and gas and water utility sectors. Below is a list of the main product and services offerings of the modular equipment business unit and their applications.

Product/service	Core market segments	Price	Production time
Pumping stations	Oil and water pumping stations. Pumping stations for water injection and oil field transportation.	RUR 20 to 50 million	6 to 9 months
Measuring and other modular equipment	Automated group metering devices. Chemical dosing facilities. Fire fighting stations.	RUR 5 to 15 million	3 to 9 months
Service and repair	Repair and maintenance services.	RUR 2 to 5 million	N/A

The Group manufactures over 40 types of pumping stations for use in the oil and gas and water utility sectors. Pumping stations in the oil and gas sector are facilities that include pumps and measuring and other equipment used to maintain day-to-day operations of oil fields. After manufacturing or procuring the components of a pumping station, the Group assembles and tests all of the equipment before disassembling and transporting it to the customer's location. The Group then reassembles and installs the equipment and conducts further testing to ensure that it is functioning correctly.

A typical pumping station contains approximately four to ten pumps. According to Frost & Sullivan, the Group is the largest producer of pumping stations in Russia, with a market share of 56% in 2009.

The Group's measuring equipment is used in the oil and gas, power generation and water utility sectors to measure flow rates. Recent legislation enacted in Russia requires oil companies to install more accurate meters on wells for accounting and tax purposes.

New regulations governing the flaring of associated gas also require oil companies to install metering devices to measure volumes of gas flared. From 2012, oil producers will be required to utilise 95% of the associated gas produced at their operations in Russia. The Group also produces associated gas processing and transport units, which are used to separate associated gas from oil wells and to transport the gas for further processing.

EPC business unit

The Group provides certain EPC services which are synergistic with the operations of its other business units, in particular, by improving the Group's ability to offer integrated solutions to companies in the oil and gas and water utility sectors in Russia and other CIS countries. The Group's engineering services cover project design, the preparation of project documentation and construction design. Procurement covers the

entire procurement cycle, from market analysis to the supply of equipment and materials, including modular equipment, required to implement the project, regardless of whether these are manufactured by the Group or purchased from third parties. The Group provides a full range of construction services, from earthworks to commissioning.

In the oil and gas sectors, the Group engineers and constructs oil and gas trunk pipelines, oil pumping stations and infrastructure for oil field development projects, including oil pumping stations, gas processing and storage facilities, reservoirs, trunk and infield pipelines, on-site housing, power transmission lines and roads. In the water utility sector, the Group engineers and constructs water infrastructure, including water purification systems, water inlets, water injection systems, irrigation systems and power units.

In June 2010, the Group acquired a controlling stake in GTNG, a leading R&D centre based in Tyumen, Russia, which was founded in 1964 to provide design services for oil and gas fields in Western Siberia. Since its establishment, it has been involved in the design of over 200 oil and gas condensate fields in Western Siberia, including the Samotlorskoe, Federovskoye and Mamontovskoe oil fields. More recent significant projects include the Novo-Urengoyskoe, Vostochno-Urengoyskoe, Zapadno-Salymskoe and Priobskoye oil fields and it has also designed a gas pipeline at the Nakhodka oil field and a compressor station at the Yamburgskoe gas field. GTNG's principal activities include engineering and design, project evaluation, environmental impact assessment and risk analysis.

Integrated solutions

The Group offers integrated solutions to its customers, which involve the provision of products and services from across the Group's business units. According to Frost & Sullivan, integrated solutions are typically higher margin than contracts for individual pumps or pump systems. These contracts include project management services, procuring equipment and services from third parties, as well as across the Group, in order to provide turn-key solutions. Recent and on-going examples of integrated solutions contracts include:

Vankor oil field

Between 2008 and 2010, the Group has manufactured 30 "super-modular blocks" for Rosneft's Vankor oil field development. These "super-modular blocks", which were the first of their kind to be manufactured in Russia, are considerably larger than standard modular equipment, being five storeys high, and incorporate machinery for a wide range of processes connected with oil field development and operation, such as water injection pumps, oil transportation pumps and oil preparation and separation systems. The super-modular blocks are designed to enable customers to significantly reduce the amount of labour required for constructing oil field structures, which is a significant advantage in remote regions. All of the pumps used in the super blocks were newly developed by the industrial pumps business unit. The modular equipment business unit designed and manufactured the super blocks and procured the remaining equipment necessary to complete the manufacture process from third parties. These "super-modular" blocks are currently in dismantled form, ready for supply to the Vankor oilfield, where they will be assembled.

ESPO pipelines

The Group has entered into contracts with Transneft and subcontractors of Transneft for the design and supply of 20 main line pumping units to be installed at oil pumping stations of the ESPO-1 pipeline system and 28 main line pumping units to be installed at oil pumping stations of the ESPO-2 pipeline system. Under the terms of the relevant contracts, the Group is responsible for the full range of work relating to the pumping stations, including design, manufacture, and equipment testing, as well as the procurement of equipment from multiple suppliers and supervision of equipment assembly and start-up and commissioning. These pumping units are designed and manufactured in accordance with Transneft's special technical requirements and include pumps, motors, cooling sleeves and valves, which the Group procured from multiple suppliers. As part of the design process, the Group co-operated with Siemens and other suppliers in order to ensure that these technical requirements would be met. Full-scale testing will be conducted at the Group's own specially constructed testing facility. In order to comply with Transneft's requirements, the Group's R&D specialists designed integrated technical solutions, which included the use of modern computational fluid dynamics software, ANSYS CFX, in order to model the operation of an entire pumping system, which helps the Group's R&D specialists to maximise pump efficiency. In addition, the Group has developed a new design of pump, which uses variable motor revolution, enabling the customer to save energy.

Water utility project, Turkmenistan

In 2008, the Group entered into an agreement with the Government of Turkmenistan for the turn-key construction of a pumping station designed to pump water from the Amu Darya river into the Yilgynagyzsky canal as a part of a plan to develop a new settlement, Lebapsky Velayat, replacing two existing floating pumping stations of lesser capacity. The project involved significant input from all three of the Group's business units, from the design and manufacture of 12 newly-developed pumps with a capacity of $3.5m^3/s$ each, including two standby pumps, to the manufacture of supplementary pumps and a 96 metre-long modular pumping station and power hall, along with the manufacture and procurement of other supplementary equipment, including cables and pipes. The pumping station has a capacity of $3.5m^3/s$, making it one of the most powerful water pumping stations in Turkmenistan. The new design of the pumps makes them suitable for operating in desert conditions. The Group's EPC business unit designed the pumping station and provided project management services, including the procurement of equipment and services from third parties necessary to complete the construction of the facility. The pumping station was commissioned in December 2010.

Diesel motor oil pipeline pumping stations

The Group entered into a contract with Transneft in March 2009 for the supply of two diesel motor pumping stations for the ESPO-1 pipeline. Transneft required mobile, diesel-powered pumping stations because of a lack of available electricity in the area in which the pipeline is located. The industrial pumps business unit designed and manufactured the pumps and the modular equipment business unit designed and manufactured the pumping stations and sourced the supplementary equipment, including power units, cooling modules, cables and piping.

Backlog

The Group uses backlog as an estimate of the accumulation of uncompleted customer orders as at a specified date, after applying certain adjustments. The Group estimates the backlog as at 31 December 2009 under its 20 most significant contracts which it has examined individually and as at 30 September 2010 under its 27 most significant contracts, which it has examined individually was approximately RUR 8.2 billion and approximately RUR 15.9 billion, respectively. In addition, the Company estimates that its backlog under the balance of its contracts was approximately RUR 1.3 billion and approximately RUR 4.7 billion as at 31 December 2009 and 30 September 2010, respectively. Accordingly, the Company estimates that its total backlog as at 31 December 2009 and 30 September 2010 was approximately RUR 9.5 billion and approximately RUR 20.6 billion, respectively. See "*Risk Factors—Risks Relating to Financial and Accounting Matters and Internal Controls—The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS*".

The table below shows the Company's backlog estimates as at 31 December 2009 and 30 September 2010, on an aggregate basis for the relevant set of key contracts to which a Group entity is a party.

Key contracts[1]	**Backlog Estimate**[2] **as at 30 September 2010**
	RUR billion
Contracts for the supply of pump systems for oil pipelines[3]	10.3
Contracts for supply of pump systems for nuclear power stations[4]	1.1

(1) These key contracts are included in the Sample reviewed by the Company, described in "*Presentation of Financial and Other Information—Backlog*".

(2) The Company's adjustment methodology described elsewhere in this Prospectus has been applied to each backlog estimate to the extent of the portion of each backlog estimate which is not attributable to the Sample reviewed by the Company. See "*Presentation of Financial and Other Information—Backlog*".

(3) This figure represents three contracts for construction and delivery by ZAO GMS of oil-trunk pumping units and spare parts in connection with the ESPO-1, ESPO-2 and Purpe-Samotlor pipeline projects. The backlog estimate shown for such contracts as at 30 September 2010 reflects a downward adjustment in the amount of RUR 2.35 billion to reflect revenue in that amount which was recognised under such contracts in accordance with IFRS but, in the absence of such adjustment, would not have

been reflected in the Group's backlog estimate for such contracts under its methodology for estimating backlog. See Note 3(a) to the Interim Financial Statements and "*Presentation of Financial and Other Information—Backlog*".

(4) This figure represents one contract for provision by Nasosenergomash of pump systems for nuclear power generation applications at the Leningradskaya and Novovoronezhskaya nuclear plants.

See "*Presentation of Financial and Other Information—Backlog*" and *"Risk Factors—Risks Relating to Financial and Accounting Matters and Internal Controls—The Group's backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS"* for an important discussion of the method the Company uses to measure backlog, including certain weaknesses inherent therein, as well as the Company's methodology for applying adjustments in order to arrive at the backlog estimates set out in this Prospectus.

Tender and contract lifecycle

Set out below is a description of a typical contract life cycle for a large-scale project involving products and services from one or several of the Group's business units.

Marketing and pre-tender project preparation

In advance of a tender announcement, the Group frequently engages in pre-marketing activities with potential customers, setting out the products and services that it proposes to provide.

Before the beginning of the tender process for large-scale projects, involving oil and gas pipelines, the construction of nuclear power stations, water utility projects and the development of oil and gas fields, the Group's R&D teams often assist potential customers in determining the technical parameters and design solutions to be included in the tender documentation. The Group typically provides a potential customer with specifications of the pumping equipment that would form part of the executed project. For complex projects, the Group offers design and engineering solutions to potential customers, often in conjunction with their own design teams, to produce preliminary design documentation. For large-scale projects, such as the construction of a nuclear power station or the ESPO oil pipeline, pre-tender negotiations can last for up to two years and involve the Group preparing detailed technical documentation for use in the customer's overall project planning. The Group believes that the assistance provided at this stage of the tender process increases the likelihood of the Group winning the contract.

Tender, pricing and contract negotiation

At the tender stage, the Group provides the potential customer with its proposal, which includes cost estimates, design specifications and the projected manufacturing timeline. In the industrial pumps business unit, customers' requirements differ depending on the type of pump and the complexity of the overall project. For customised pumps, key decision factors include local engineering expertise and the ability to manufacture, deliver and install the pumps in accordance with the timetable of the project. The track record of the manufacturer is also among the key criteria for customers when determining the choice of supplier. For standard pumps, price, quality and the relationship with a particular customer are all significant factors. In the Group's modular equipment business unit, the quality of the product and the customer's relationship with the Group are key decision factors. The tender, pricing and contract negotiation stage typically lasts between one and three months.

Design and production

In the industrial pumps and modular equipment business units, the Group both designs and manufactures pumps and modular equipment. Depending on the complexity of the pump or the degree of customisation required, the manufacturing stage can take up to two years for customised pumps, such as pumps used for oil transportation or nuclear power generation. Modular equipment typically takes between one to 12 months to design and manufacture, depending on the customer's specifications. Prior to delivery, the Group assembles, tests and fine tunes the equipment to ensure functionality. In the case of modular equipment, products are disassembled before being transported. In the EPC business unit, design and survey works, which include the preparation of project documentation, engineering and land surveys, research and liaising with the authorities, take up to six months, depending on the complexity of the project.

Delivery and installation

Installation services account for a significant portion of the Group's overall revenues. The Group delivers and installs customised pumps and modular equipment on-site. This stage involves testing and fine tuning equipment to ensure that it is functioning efficiently. The operations of the Group's customers in the oil and gas sector are typically located in remote, undeveloped locations with poor transport infrastructure. As a result, the majority of deliveries are made during the winter roads season. In the EPC business unit, the Group also coordinates the delivery and installation of equipment that it has procured on behalf of the customer and supervises construction works.

After market services

Following delivery and installation, the Group provides aftermarket services to its customers. These services range from providing spare parts and carrying out on-site maintenance to conducting a full overhaul and modernisation of equipment, typically between five and 15 years after the equipment first went into operation.

Production facilities

The Group owns and operates 12 main production facilities, of which ten are located in Russia, one in Ukraine and one in Belarus. In addition, the Group has one associate company with production facilities located in Russia.

Subsidiary	Location	Principal Use
HMS Pumps Livnynasos . . .	Livny, Russia	Production of industrial pumps
HMS Household Pumps . . .	Bavleny, Russia	Production of household pumps
DGKhM(1)	Dimitrovgrad, Russia	Production of industrial pumps
Nasosenergomash	Sumy, Ukraine	Production of industrial pumps
VNIIAEN	Sumy, Ukraine	R&D centre for industrial pumps
Promburvod	Minsk, Belarus	Production of industrial pumps
SibNA Neftemash	Tyumen, Russia	Production of high precision metering equipment
		Production of modular equipment for oil, gas and water sectors
NRS	Nizhnevartovsk, Russia	Repair of pumps and modular equipment
GTNG	Tyumen, Russia	Design of oil and gas fields
RVKP	Rostov, Russia	Design of water supply systems
SKMN	Tyumen, Russia	Development of oil and gas fields
Tomskgazstroy	Tomsk, Russia	Pipeline construction

(1) Associate companies

The Group's pump production facilities are located in two main clusters, in Sumy, Ukraine and Livny, Russia. Pump production is long established in these cities and there are a number of technical, engineering and science universities, which produce a significant number of qualified engineering personnel. The Group's modular equipment production and EPC facilities are located in Tyumen, Russia, the largest city in Western Siberia, the principal oil production region in Russia.

The Group's manufacturing and EPC facilities share technology and collaborate, which enables the Group to increase operational efficiencies by using common suppliers and production processes.

The Group's key facilities are certified ISO 9001:2008 compliant, which refers to a quality management system that demonstrates the ability to consistently provide products that meet customer and applicable regulatory requirements and aim to enhance customer satisfaction.

For its critical manufacturing processes, the Group purchases equipment from foreign manufacturers, including Skoda, Scheiss, Doosan, Demag, Schenk, Sodik and Ibarmia. The Group purchases pipe laying machines, bulldozers and other construction equipment from Komatsu, Hitachi and Tatra, among others.

The Group's manufacturing facilities currently operate at between 70% and 90% capacity.

Sales and marketing

In the majority of cases, the Group is awarded contracts after participation in tenders. Customers typically make advance payments of between 30% and 50% of the value of the contract, with the remainder due in instalments over the life cycle of the contract.

As at 30 September 2010, the Group employed approximately 200 sales personnel. The Group builds and maintains customer relationships at board level, at senior manager level and at the local level. The negotiation of large-scale projects, such as ESPO and the Vankor oil field typically involves the Group's directors, senior managers, senior R&D personnel and technical specialists and their counterparts in the customer's head office. For large supplies of customised equipment and modular equipment, the Group's senior sales managers and R&D engineers typically engage with senior managers at a customer's operating subsidiaries. For regular supplies of pumps and other equipment and services, the Group's sales managers and R&D engineers typically liaise directly with the middle management teams and technical specialists of a customer's local production unit. At each stage of the sales process, the Group's sales efforts are supported by input from R&D personnel.

Customised pumps and modular equipment are sold directly to customers. Contract terms vary depending on a number of factors, including, among others, the industry in question, the size of the order and the types of pumps ordered. For example, pumps for the nuclear industry are typically provided under supply agreements that are performed in accordance with the construction schedule of a nuclear plant (i.e., one to three years). Contracts for modular equipment range, on average, from three to six months.

Standard pumps are sold mainly through a trading network of dealers and distributors covering Russia, the CIS and the Baltic countries. The Group has distribution arrangements with dealers and distributors, some of which also provide maintenance and repair services for the Group's products. The Group typically enters into one-year, non-exclusive agreements with dealers and distributors, which can be renewed upon expiry.

In addition to sales personnel in Russia, the Group has sales offices located in Tashkent, Uzbekistan, Ashkhabad, Turkmenistan and Baghdad, Iraq.

Customers

The Group has a broad base of customers, located principally in Russia and the CIS, operating in the oil and gas, power generation and water utility sectors. In addition, the Group has customers in the metals and mining and chemical and petrochemical industries.

Set out below are the details of the Group's top five customers, by revenue, for the years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2009 and 2010.

	Share of total revenues in that period
Year ended 31 December 2007	
Rosneft[1]	14%
Orion-Stroy	8%
Gazprom Neft[2]	7%
TNK-BP[3]	5%
Lukoil[4]	3%
Total top five customers	**37%**

	Share of total revenues in that period
Year ended 31 December 2008	
Rosneft[1]	11%
Gazprom Neft[2]	9%
Imperial Energy	8%
TNK-BP[3]	7%
Novatek[5]	6%
Total top five customers	**41%**

Year ended 31 December 2009	Share of total revenues in that period
Rosneft[1]	21%
TNK-BP[3]	8%
Transneft[6]	6%
Gazprom Neft[2]	4%
Orion-Stroy	4%
Total top five customers	**43%**

Nine months ended 30 September 2009	Share of total revenues in that period
Rosneft[1]	10%
TNK-BP[3]	10%
Transneft[6]	6%
Orion-Stroy	5%
Gazprom Neft[2]	5%
Total top five customers	**36%**

Nine months ended 30 September 2010	Share of total revenues in that period
Rosneft[1]	23%
Transneft[6]	16%
Orion-Stroy	6%
Gazprom-Neft[2]	6%
TNK-BP[3]	5%
Total top five customers	**56%**

(1) References to Rosneft include contracts with the following subsidiaries or subcontractors of Rosneft: Vankorneft, NK Rosneft, Tomskneft-Service, Tomskneft VNK, Udmyrtneft, Samaraneftegaz-Service, PN-Severnaya Neft, "PN-Purneftegaz", PN-Yuganskneftegaz, "Sakahlinmorneftemontazh", RN-Krasnodarneftegaz, "Novokuibushebskiy HNZ", RN-Tuapsinskiy NPZ and RN-Komsomolskiy NPZ.

(2) References to Gazprom Neft include contracts with the following subsidiaries of Gazrpom Neft: "Gazprom Neft", Gazpromneft-Noyabrskneftegaz, Gazpromneft-NNG, Gazpromneft-Tyumen, "Gazpromneft-ONPZ", "Gazpromneft-Novosibirsk", "Gazpromneft-Vostok", "Gazpromneft-SM" and "Gazpromneft-Khuntos".

(3) References to TNK-BP include contracts with the following subsidiaries or subcontractors of TNK-BP: "TNK-BP Holding", Samotlorneftegaz, TNK-Nizhnevartovsk, Varieganneftegaz, TNK-Uvat and Tyumenneategaz.

(4) References to Lukoil include contracts with the following subsidiaries or subcontractors of Lukoil: "Lukoil TD", "Lukoil Zapadnaya Sibir", Lukoil-Aik, "Lukoil-Ukhtaneftepererabotka".

(5) References to Novatek include contracts with the following subsidiaries of Novatek: NOVATEK-PUROVSKIY ZPK, and "Novatek-Tarkosaleneftegaz".

(6) References to Transneft include contracts with the following subsidiaries or subcontractors of Transneft: "Magistralnie nefteprovodi "Druzhba", "Vostoknefteprovod", TSUP "VSTO", Dalnevostochnaya Stroitelnaya Direktsia', "Baltnefteprovod", Transsibneft, "Sibnefteprovod", "Uralsibnefteprovod", Privolzkhie magistralnie nefteprovodi, SZMN', "Sibtransnefteproduct", "Peterburgtransnefteproduct", "Mostransnefteproduct", "Uraltransnefteproduct", "Tsentrsibnefteprovod", Branch office of "Privolzkhnefteproduct", "Verkhnevolzkie magistralnie nefteprovodi", Sredne-Volzkhiy Nransnefteproduct, "Tulanefteproduct", "Ceverniy magistralniy nefteproduct", "Severo-Zapadnie MN", Tchernomortransneft, and "Yugo-Zapadniy Transnefteproduct".

In the power generation sector, the Company's customers include Rosatom and various other power generating companies. In the water utility sector, the Group's customers in Russia include Mosvodokanal, Rosvodokanal and St. Petersburg Vodokanal. The Group has undertaken turn-key water utility projects in Turkmenistan and Uzbekistan and has a presence in the water utility markets in Tajikistan and Kyrgyzstan.

In addition to its customers located in Russia and the CIS, the Group sells pumps and other equipment to customers in Iraq, including BP and the Iraqi Energy Ministry and in Central Asia, including KazMunaiGas and the Government of Turkmenistan. The Group also has also participated in certain of Rosatom's overseas nuclear power plant projects.

Competition

Industrial pumps business unit

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

Modular equipment business unit

The Russian market for modular equipment is dominated by well-established Russian players holding significant market shares. According to Frost & Sullivan, the Group's main competitor in its core modular equipment segments is OZNA, a leading producer of pumping stations and the leading producer of automated group metering units, which held a market share of approximately 32% of the pumping stations market and 50% of the automated group metering market in Russia in 2009. The Group also competes with other, smaller producers of pumping stations, including Uraltechnostroy.

The Group does not believe that it faces significant competition from foreign producers of modular equipment because its equipment is designed specifically for the harsh weather conditions typically experienced in Russia and can remain in operation despite extremely low temperatures, unlike most foreign-produced equipment. Although foreign producers of modular equipment have attempted to adapt their equipment, they have so far not successfully penetrated the Russian market. The Group believes that the proximity of the Group's production facilities to customers' operations is also a key advantage compared to potential foreign competitors.

EPC business unit

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

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

Suppliers

The Group's principal raw materials that it uses in its manufacturing and engineering operations are ferrous metals, castings and forgings, motors, component parts and cables. In the nine months ended 30 September 2010, ferrous metals primarily accounted for between 30% and 40% of the Group's raw materials and supplies costs, castings and forgings between 10% and 20% and motors 10% to 15%. The Group believes that its supplier base is competitive and well diversified. Critical components, such as castings and forgings, are sourced from suppliers in South Korea. Less critical components are sourced from a variety of suppliers in Russia chosen by the Group following a selection procedure. The Group

reviews each supplier's services annually and tests the product that it supplies. All of the Group's raw materials are procured centrally in order to secure favourable pricing.

Research and Development

As at 31 December 2010, the Group's R&D facilities employed approximately 1,750 people including 1,300 at GTNG. The Group coordinates its R&D activity from its R&D centre in Moscow, which develops new types of pumps for the oil and gas, power generation and water utility sectors.

Recent projects that have involved significant input from the Group's R&D teams include the development and production of an irrigation pumping station for the Government of Turkmenistan, the design and production of new modifications of pumps, the upgrade of existing pumps for the Kalininskaya, Volgodonskaya and Leningradskaya nuclear power stations and the development of a new generation of oil transportation pumps for Transneft's ESPO-2 pipeline. Set out below is a description of the Group's R&D activities by business unit.

Industrial pumps business unit

The Group currently operates two pump testing and R&D facilities specialising in the development of pumps for oil production and transportation, thermal and nuclear power generation and water utilities, including one of the largest pump testing facilities in Europe, with the capacity to test pumps up to 8MW, currently being expanded to 14MW.

Modular equipment business unit

R&D in the Group's modular equipment business unit focuses on the design and engineering of pumping stations and comprises three design and engineering departments, located at its modular equipment production facilities, which focus primarily on upgrading and modernising the Group's existing product portfolio, as well as on customising the Group's products to meet customer specifications.

EPC business unit

The Group's EPC business unit includes GTNG, a leading independent R&D centre for midstream and upstream oil and gas projects, which designs oil and gas fields. The Group's EPC unit also operates laboratories which conduct geological analysis, as well as research into the commercial production and development of oil, gas and water systems.

Intellectual Property

The Group has registered 116 patents (50 for inventions and 65 for utility models and 1 for designs) in Russia and 22 patents in Ukraine. The Group also has 15 applications for the registration of patents pending. The Group's patents are related primarily to various types of pumping, measuring and regulating equipment for oil production, oil processing, oil and gas transfer, atomic and other industries, such as industrial pumps for the oil, gas and water utility sectors, measuring instruments and other equipment.

The Group has also registered a number of trademarks, including the names "HMS", "TMS", "Малыш", "Ручеек", «Бурун» and other names and graphic trademarks and have two applications pending to register additional trademarks. See "*Risk Factors—Risks Related to the Group's Business and Industry—The Group may be unable to secure or protect rights to its intellectual property*".

HEALTH, SAFETY AND ENVIRONMENT

The Group's operations are subject to a number of health, safety and environmental (HSE) laws and regulations. These laws govern, among other things, the use, handling and disposal of hazardous substances, waste, soil and groundwater contamination, the composition of emissions into the atmosphere and employee health and safety. See "*Regulatory Matters*".

The Group's key production facilities have been certified as being compliant with the requirements of ISO 9001:2008 standard (Quality Management Systems).

The Group believes that its operations are generally in compliance with applicable health, safety and environmental regulations. To date, the Group has not had any serious accidents that have had a significant environmental impact. The Group has not recorded any provision for environmental payments in its Consolidated Financial Statements included elsewhere in this Prospectus.

EMPLOYEES

The Group has approximately 11,000 employees as of the date of this Prospectus. Although the majority of its employees are located in Russia, approximately 3,300 employees are located outside Russia, in Ukraine and Belarus. To date, the Group has not experienced any strikes, work stoppages or material labour disputes. Approximately 75% of the Group's employees are members of trade unions.

The following table sets forth the average number of the Group's employees for the years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2009 and 2010:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
Industrial Pumps	5,249	5,635	5,862	5,809	5,547
Modular equipment	2,042	2,002	2,112	2,114	2,118
EPC	2,239	2,235	1,767	1,658	3,131
Other	128	183	211	207	233
Total	**9,658**	**10,055**	**9,952**	**9,788**	**11,029**

More than 90% of the Group's employees are party to collective bargaining agreements. Most of the collective bargaining agreements are for periods of one to three years. Employees have concluded collective bargaining agreements with all of the Group's production facilities. Collective bargaining agreements, in addition to incorporating provisions of the Labour Code of Russia, usually provide employees with certain social benefits, such as vouchers for public holidays, subsidies for recreation for employees and their children and culture and sports activities.

Litigation

From time to time the Group is involved in legal proceedings arising in the ordinary course of business. However, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Group's financial position or profitability.

INFORMATION RELATING TO THE COMPANY AND HMS GROUP

Set out below is certain information relating to the corporate history of the Company and HMS Group, including in relation to (i) the establishment of HMS Group, (ii) the share capital development of HMS Group during the periods covered by the financial statements included in this Prospectus, (iii) the pre-Offering restructuring whereby the Company became the holding company of HMS Group and the beneficial owners of HMS Group converted their holdings into shares of HMS Technologies, one of the Selling Shareholders, and (iv) the recent and proposed mergers by accession of certain intermediate holding companies within the Group's structure.

Establishment of HMS Group

In 1993, the Group's founders established Hydromashservice, a Russian closed joint stock company, as a trading company distributing pumps and pumping equipment in Russia and the CIS. In 2004, the Group's beneficial owners reorganised the Group by incorporating OOO Hydraulic Machines (renamed OOO Investment and Industrial Group Hydraulic Machines and Systems ("**IIG HMS**") in 2006), the predecessor of HMS Group, and transferring to IIG HMS their interests in Hydromashservice and other Group entities.

Share capital development of HMS Group: 2007-2010

During the three years ended 31 December 2007, 2008 and 2009, HMS Group was the principal holding company for the Group and the reporting entity for the purposes of the Annual Financial Statements. As at 1 January 2007, the first day of the period covered by the financial statements included in this Prospectus, the shareholders of HMS Group (then known as IIG HMS) were the following Russian limited liability companies:

(i) OOO Hydroindustriya ("**Hydroindustriya**"), owning 42.5% of the charter capital of IIG HMS;

(ii) OOO Hydromashinvest ("**Hydromashinvest**"), owning 42.5% of the charter capital of IIG HMS; and

(iii) OOO Promhydroservice ("**Promhydroservice**"), owning 15.0% of the charter capital of IIG HMS.

On 1 July 2008, Hydroindustriya, Hydromashinvest and Promhydroservice, at an extraordinary general meeting of shareholders of IIG HMS, unanimously adopted resolutions to convert IIG HMS from a limited liability company, re-register it as an open joint stock company, re-name it Open Joint Stock Company HMS Group and exchange their interests in IIG HMS on a pro rata basis into newly issued ordinary shares of HMS Group. This re-organisation became effective on 29 August 2008.

On 17 November 2008, Hydroindustriya, Hydromashinvest and Promhydroservice contributed 29.3%, 29.3% and 10.3%, respectively, of the shares of HMS Group to OOO HMS-Holding ("**HMS-Holding**"), a Russian limited liability company incorporated by Hydroindustriya, Hydromashinvest and Promhydroservice in 2006 as OOO HMS-Engineering. From that date to 31 December 2010, Hydroindustriya, Hydromashinvest and Promhydroservice held 42.5%, 42.5% and 15.0% of the shares of HMS-Holding.

Pre-Offering restructuring of the Group's holding structure: 2010-2011

In June 2010, the Group initiated a restructuring of its corporate and business structure with a view to optimising management of its operating subsidiaries and increasing the transparency of the Group's corporate structure (the "**Restructuring**"). The Restructuring involved a re-organisation of the holding structure of HMS Group, including the holdings of the Group's ultimate beneficial owners, and the establishment of the Company to serve as the holding company for the Group.

The Company was incorporated in Cyprus on 27 April 2010 under the name Bishopstow Holdings plc. The Company's name was changed to H.M.S. Hydraulic Machines and Systems Group Public Co. Limited, effective 29 June 2010, and to its current name of HMS Hydraulic Machines & Systems Group plc, effective 3 January 2011.

Effective 15 September 2010, Promhydroservice hived off part of its assets and transferred them to a newly incorporated Russian limited liability company, OOO Promhydroinvest ("**Promhydroinvest**"), all of whose shares were held by 13 of the 15 shareholders of Promhydroservice. As a result of the re-organisation,

Promhydroinvest acquired 3.0% of the shares of HMS Group, and Promhydroservice's stake in HMS Group decreased to 1.7%.

Immediately prior to 30 September 2010, the beneficial owners of HMS Group were as follows:

(i) the shareholders of Hydroindustriya, being the Group's founders, German Tsoy, Artem Molchanov and Kirill Molchanov and four of their associates;

(ii) the shareholders of Hydromashinvest, being private investor Vladimir Lukyanenko, member of the Board of Directors and Group senior manager Nikolay Yamburenko and Group senior manager Yuri Skrynnik;

(iii) the shareholders of Promhydroservice, being Nikolay Yamburenko, Vladimir Yamburenko and an associate; and

(iv) the shareholders of Promhydroinvest, being certain senior and other managers of the Group.

These four groups of shareholders also comprise (i) all of the A Shareholders, (ii) together with Skye, all of the B Shareholders, (iii) all of the C Shareholders. and (iv) all of the D Shareholders, respectively, of HMS Technologies. HMS Technologies and Skye are the Selling Shareholders in the Offering. See "*Principal and Selling Shareholders—Shareholder Arrangements and Nature of Control—Effective Ownership of the Company*."

On 23 September 2010 and 30 September 2010 respectively, each shareholder of each of Hydroindustriya and Hydromashinvest contributed all of his shares in these entities to the Company in consideration of newly issued shares of the Company. On 19 October 2010, each shareholder of each of Promhydroservice and Promhydroinvest contributed all of his shares in these entities to the Company in consideration of newly issued shares of the Company.

On 31 December 2010, individuals who, immediately before 31 December 2010, were the sole shareholders of each of Hydroindustriya, Hydromashinvest, Promhydroservice and Promhydroinvest contributed all of their shares of HMS Group (comprising in the aggregate 31.2% of all of the shares of HMS Group) to HMS-Holding. At the same time, HMS-Holding transferred to Hydromashservice a single share of HMS Group, comprising less than 0.1% of the shares of HMS Group. As a result of these transfers, HMS-Holding held, and continues to hold at the date of this Prospectus, all but one share of HMS Group, giving HMS-Holding a stake of 100.0% (after rounding) in HMS Group.

On 19 January 2011, the shareholders of Hydroindustriya, Hydromashinvest, Promhydroservice and Promhydroinvest transferred in aggregate 75.1% of the Ordinary Shares of the Company to HMS Technologies in consideration of newly issued shares of HMS Technologies. It is expected that in February 2011, those individuals and Skye will transfer the remaining 24.9% of the Ordinary Shares of the Company to HMS Technologies in consideration of additional newly issued shares of HMS Technologies. The shareholding structure of HMS Technologies at the date of this Prospectus is set forth at "*Principal and Selling Shareholders—Selling Shareholders—HMS Technologies*".

Merger by accession of the Russian limited liability companies

In the last phase of the Restructuring, the Company effected the merger by accession of each of Hydroindustriya, Hydromashinvest, Promhydroservice and Promhydroinvest into HMS-Holding pursuant to a restructuring agreement entered into by each of these entities, and approved by their respective shareholders, on 9 November 2010 (the "**Restructuring Agreement**"). As a result of the merger under the Restructuring Agreement, HMS-Holding acquired all the assets and assumed all the liabilities of each of the merged entities pursuant to an act of transfer dated 31 December 2010 and approved by HMS-Holding and each respective merged entity.

HMS-Holding became the successor entity of the merged entities with effect from the removal of the entries in respect of the merged entities from the Unified State Register of Legal Entities on 2 February 2011.

Following the de-registration of Hydroindustriya, Hydromashinvest, Promhydroservice and Promhydroinvest, the shares of such entities have been cancelled and the Company is, as of the date of this Prospectus, the sole and direct shareholder of HMS-Holding.

To further streamline the Group's corporate structure, the Company currently intends to undertake a similar merger of HMS-Holding into HMS Group.

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

As at the date of this Prospectus, the membership of the Board of Directors is set out below.

Name	Year of birth	Current position	Year Appointed
Mr. German A. Tsoy	1953	Chairman of the Board of Directors, non-executive director	2010
Mr. Vladimir V. Lukyanenko	1967	Member of the Board of Directors, non-executive director	2010
Mr. Artem V. Molchanov	1972	Member of the Board of Directors, executive director	2010
Mr. Kirill V. Molchanov	1965	Member of the Board of Directors, executive director	2010
Mr. Philippe Delpal	1972	Member of the Board of Directors, Independent Director, Head of Audit Committee	2010
Mr. Andreas S. Petrou	1960	Member of the Board of Directors, non-executive director	2010
Mr. Yury N. Skrynnik	1961	Member of the Board of Directors, executive director	2010
Mr. Gary S. Yamamoto	1965	Member of the Board of Directors, Independent Director, Head of Remuneration Committee	2010
Mr. Nikolai N. Yamburenko	1953	Member of the Board of Directors, executive director	2010

The business address for each of the members of the Board of Directors is Capital Centre, 9th Floor, 2 Romanou Street, Tlais Tower, 6th floor, 1070 Nicosia, Cyprus.

Mr. German A. Tsoy—Chairman of the Board of Directors

Mr. Tsoy was appointed as Chairman of the Board of Directors in October 2010. Prior to that he has served as a member of the Board of Directors of HMS Group since 1 July 2008. Mr. Tsoy served as President of HMS Group from 2006 until 2008 and, as one of the founders of the Group, also held various executive positions within the Group since its establishment in 1993. Mr. Tsoy has more than 17 years' industry experience. He graduated from Frunze Polytechnic Institute (currently the I. Razzakov Kyrgyz State Technical University) where he graduated with a degree in electrical engineering in 1985 and graduated from Buguruslan Flying School of Civil Aviation with a degree in civil aviation in 1979. Mr. Tsoy served as General Director of OOO HMS-Holding from 2008 until 2009 and as President since 2009.

Mr. Vladimir V. Lukyanenko—Member of the Board of Directors

Mr. Lukyanenko was appointed as a non-executive member of the Board of Directors in October 2010. Currently, he also serves as General Director of OOO Hydromashinvest. From 2006 until 2008, Mr. Lukyanenko served as Vice-President of OOO Hydraulic Machines. From 2006 until 2008, he served as Vice-President of the Group. He has also served as the Chairman of Supervisory Board of OAO Sumy Frunze NPO from 2003 until 2007. Mr. Lukyanenko has more than 18 years of industry experience. He graduated from Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering Ecology) where he graduated with a degree in mechanical engineering in 1991.

Mr. Artem V. Molchanov—Member of the Board of Directors

Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010. Mr. Molchanov became the President of HMS Group in 2008. He is one of the founders of the Group. Since 2005, Mr. Artem Molchanov has served as the Chief Executive Officer of OOO HMS Group Management Company. From 1993 until 2005, Mr. Molchanov served as Deputy General Director of ZAO Hydromashservice. Mr. Molchanov has served as General Director of Hydroindustriya since 2005 and as a member of the board of directors of DGkhM since 2007. Mr. Molchanov has more than seventeen years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics) where he graduated with a degree in industrial economics.

Mr. Kirill V. Molchanov—Member of the Board of Directors

Mr. Molchanov was appointed as an executive member of the Board of Directors in October 2010 and has served as Vice-President of HMS Group since 2008. He has served as a First Deputy General Director of OOO HMS Group Management Company since 2006 and, prior to that, was Deputy General Director

from 2005 until 2006. Mr. Molchanov has held various executive positions in the Group since its establishment in 1993 and is one of the founders of the Group. Mr. Molchanov has seventeen years of industry experience. He graduated from Bauman Moscow Higher Technical School (currently Bauman Moscow State Technical University) with a degree in electromechanical engineering. He is currently undertaking an executive MBA at the Judge Business School, University of Cambridge.

Mr. Philippe Delpal—Member of the Board of Directors

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

Mr. Andreas S. Petrou—Member of the Board of Directors

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

Mr. Yury N. Skrynnik—Member of the Board of Directors

Mr. Skrynnik was appointed as an executive member of the Board of Directors in October 2010. He is currently the Director for Strategic Marketing of OOO HMS Group Management Company, a position he has held since 2008. Mr. Skrynnik has also served as a member of the boards of directors of a number of operating subsidiaries within the Group since 2006. Prior to joining the Group, he served as the Chief Representative of OAO Sumy Frunze NPO (Ukraine) in Russia from 1999 until 2008. Mr. Skrynnik worked as Director of the Innovative Technical Subdivision of OOO Machines, Equipment, Technologies, Products and Services, from 1992 until 1999. From 1986 until 1988, he served as a scientific research officer at the Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering Ecology). Mr. Skrynnik has more than 20 years of science and management experience. Mr. Skrynnik graduated from the Sumy branch of Kharkiv Polytechnic Institute with a degree in mechanical engineering in 1983. He was awarded a PhD in engineering science from The Moscow Institute of Chemical Machinery (currently Moscow State University of Engineering and Ecology) in 1988. Mr. Skrynnik is an author of more than fifty scientific publications and twenty inventions.

Mr. Gary S. Yamamoto—Member of the Board of Directors

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

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

Mr. Yamburenko has served as an executive member of the Board of Directors since October 2010. Mr. Yamburenko is currently the Head of the Industrial Pumps Business Unit of OOO HMS Group Management Company, which position he has held since 2005. Since 2010, Mr. Yamburenko has served as General Director of OOO Promhydroinvest. Mr. Yamburenko has also served as a member of the board of

directors of a number of operating subsidiaries within the Group since 2005 and has been employed in Group entities since 1998. Mr. Yamburenko has more than thirty two years of industry experience. He graduated from the faculty of radio electronics of Moscow Aviation Institute named after S. Ordzhonikidze where he graduated with a degree in radio electronics.

For details of the procedures for appointment and removal of directors of the Company, see "*Description of Share Capital and Applicable Cypriot Law—Articles of Association—Directors*".

Senior Management

As at the date of this Prospectus, the senior management, by function, of the Group is set out below.

Name	Year of birth	Current position	Year Appointed
Mr. Artem V. Molchanov	1972	President of the Group,	2008
		General Director of OOO HMS Group Management Company	2005
Mr. Kirill V. Molchanov	1965	First Deputy General Director of OOO HMS Group Management Company	2006
Mr. Andrey V. Nasledyshev	1963	Deputy General Director of OOO HMS Group Management Company	2005
Mr. Mikhail Y. Kuzmenko	1960	Financial Director	2005
Mr. Vladimir M. Moiseyenko	1957	Head of EPC Business Unit	2005
Mr. Anatoly V. Nazarov	1948	Head of Modular Equipment Business Unit	2006
Mr. Andrey E. Novikov	1972	Deputy Head of Modular Equipment Business Unit	2007
Mr. Igor B. Tverdokhleb	1964	Director for Research and Development	2006
Mr. Nikolay N. Yamburenko	1953	Head of Industrial Pumps Business Unit	2005

The biographies of the senior management of the Group, as at the date of this Prospectus, are set out below to the extent that they are not members of the Board of Directors of the Company and set out above.

Mr. Andrey V. Nasledyshev—Deputy General Director of OOO HMS Group Management Company

Mr. Nasledyshev has served as a Deputy General Director of OOO HMS Group Management Company since 2006. From 2005 until 2006, Mr. Nasledyshev served as Director for strategic planning and development and, prior to that, as Director for development at Hydromashservice between 2004 and 2005. He has seven years of experience executing mergers and acquisitions in the oil and gas and machine-building industries and 11 years of industry experience. He graduated from the Plekhanov Russian Academy of Economics (currently Plekhanov Russian University of Economics) with a degree in economic cybernetics and also from Higher School of Economics (Prague, Czech Republic) with a degree in international relations in 1985. He also holds an Executive MBA degree from the Antwerp Management School (UAMS).

Mr. Nasledyshev's business address is OOO HMS Group Management Company, Ul. Chayanova 7, Moscow 125047, Russia.

Mr. Mikhail Y. Kuzmenko—Financial Director of OOO HMS Group Management Company

Mr. Kuzmenko is a Financial Director of OOO HMS Group Management Company and has served in this capacity since 2005. Mr. Kuzmenko has also served as a Financial Director of HMS Group since 2008. From 1998 until 2005, He served as a Financial Director of Hydromashservice. Mr. Kuzmenko has more than 15 years' experience in finance. He graduated from the Moscow Technical Forest Institute (currently Moscow State Forest University) with a degree in economics and organisation of wood-processing and pulp-and-paper industry. He was awarded a PhD in economic science from the Moscow Technical Forest Institute in 1990.

Mr. Kuzmenko's business address is OOO HMS Group Management Company, Ul. Chayanova 7, Moscow 125047, Russia.

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

Mr. Moiseyenko has served as Head of the Group's EPC Business Unit since 2010. Mr. Moiseyenko has been a member of the boards of directors of a number of operating subsidiaries within the Group since 2006. Prior to that, Mr. Moiseyenko served as Deputy Head of the EPC business unit between 2007 and 2010. From 2006 until 2007, Mr. Moiseyenko served as the General Director of OOO HMS-Engineering. He served as a Deputy Managing Director of Hydromashservice from 2005 until 2006. Mr. Moiseyenko graduated from Tyumen Industrial Institute with a degree in transport operations engineering in 1992.

Mr. Moiseyenko's business address is OOO HMS Group Management Company, Ul. Chayanova 7, Moscow 125047, Russia.

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

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

Mr. Nazarov's business address is OOO HMS Group Management Company, Ul. Chayanova 7, Moscow 125047, Russia.

Mr. Andrey E. Novikov—Deputy Head of Modular Equipment Business Unit

Mr. Novikov has served as Deputy Head of the Modular Equipment Business Unit since 2007. Mr. Novikov has also served as Deputy Managing Director of Hydromashservice since 2005 and has held various other positions within the Group since 2002. He has more than ten years of experience in the pump and oil and gas industry. Mr. Novikov graduated from The Moscow Institute of Electronic Machinery (currently Moscow State Institute of Electronics) and Mathematics (Technical University) with a degree in engineering and mathematics.

Mr. Novikov's business address is OOO HMS Group Management Company, Ul. Chayanova 7, Moscow 125047, Russia.

Mr. Igor B. Tverdokhleb—Director for Research and Development Hydromashservice

Mr. Tverdokhleb has served as Director for Research And Development since 2006. From 2005 until 2006, Mr. Tverdokhleb served as Engineering Director at ZAO Hydromashservice. Mr. Tverdokhleb graduated from the Sumy branch of the Kharkiv Polytechnic Institute with a degree in mechanical engineering. He holds a PhD in engineering science from the Sumy State University (Ukraine), awarded in 1995 and is a former professor of the Sumy State University.

Mr. Tverdokhleb's business address is OOO HMS Group Management Company, Ul. Chayanova 7, Moscow 125047, Russia.

Compensation of Directors and Senior Managers

The aggregate amount of compensation paid and benefits in kind granted by the Group to management for their services to the Group for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 amounted to RUR 31,606 thousand, RUR 59,626 thousand and RUR 61,651 thousand, respectively, and for the nine months ended 30 September 2009 and 30 September 2010 amounted to RUR 43,945 thousand and RUR 64,850 thousand, respectively. There are no amounts set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits to such persons. None of the current members of the Board of Directors has received any compensation for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 or for the nine months ended 30 September 2009 and 30 September 2010 in such capacity.

No director or senior manager is a party to any service contract with the Group where such contract provides for benefits upon termination of employment.

Management Incentive Programme

The Group does not have a formal incentive programme for members of management. In the past, certain members of management, including certain directors and senior managers, have received shares in Group entities at prices determined on the basis of market values. Prior to the Offering, these shares were exchanged for Ordinary Shares or for an interest in a Selling Shareholder. For more information about the interests held by the Group's directors and senior managers in the Company or the Selling Shareholders, see "*Principal and Selling Shareholders*."

The Company is currently reviewing possible alternatives for establishing a formal share option plan or other management incentive programme. However, to date no such programme has been agreed upon or established by the Board of Directors.

Previously, the Company had considered payment of bonuses to certain members of the Board of Directors of the Company, who are also its principal beneficial owners. However, all of the proposed recipients of such bonuses, in conjunction with the Company, have informed the Company of their intention to forego the proposed bonuses. Accordingly, the Company will not pay any of the proposed bonuses.

The directors who would have been eligible to receive such bonuses are Messrs. German A. Tsoy and Vladimir V. Lukyanenko (members of the Board of Directors), Artem V. Molchanov, Kirill V. Molchanov and Nikolai N. Yamburenko (members of the Board of Directors and senior managers of the Group) and Mr. Yury N. Skrynnik (a member of the Board of Directors and a manager of the Group), each of whom is also a beneficial owner of the Group and a shareholder of one or both of the Selling Shareholders. See "*Principal and Selling Shareholders*". The aggregate amount of such bonus payments, if made, would not have exceeded US$ 15 million (or RUR 440,550 thousand, at the exchange rate of RUR 29.37 per US$ 1 established by the CBR for 8 February 2011).

Interests of members of the Board of Directors and Senior Managers of the Group

The table below sets out, as at the date of this Prospectus, the number of Ordinary Shares of the Company held directly, and the percentage of the Company's share capital held directly or indirectly, by the members of the Board of Directors and the senior managers of the Group.

	Ordinary Shares held		
Shareholder	**Number**	**% of share capital of the Company**	**Effective interest**
Vladimir V. Lukyanenko	1	0.0%	36.6%
German A. Tsoy	2	0.0%	26.6%
Artem V. Molchanov	1	0.0%	9.0%
Nikolai N. Yamburenko	1	0.0%	7.9%
Yury N. Skrynnik	0	0.0%	3.5%
Kirill V. Molchanov	0	0.0%	2.8%
Andrey V. Nasledyshev	1	0.0%	0.3%
Andrey E. Novikov	0	0.0%	0.2%
Anatoly V. Nazarov	0	0.0%	0.2%
Vladimir M. Moiseyenko	0	0.0%	0.2%
Mikhail Y. Kuzmenko	0	0.0%	0.2%
Igor B. Tverdokhleb	0	0.0%	0.1%
Total	6	0.0%	87.6%

The members of the Board of Directors, the senior managers of the Group and certain direct or indirect beneficial owners of the Company have the following potential conflicts of interest:

- In addition to the direct holdings of Ordinary Shares shown in the table above, certain members of the Board of Directors (i.e., Messrs. Tsoy, Lukyanenko and Skrynnik, as well as Messrs. A.V. Molchanov, K.V. Molchanov and N.N. Yamburenko, who are also senior managers of the Group) and certain other senior managers (i.e., Messrs. Nasledyshev, Kuzmenko, Moiseyenko, Nazarov, Novikov and Tverdokhleb) of the Group hold indirect beneficial interests in the Company's share capital in their capacity as shareholders of HMS Technologies or Skye, the Selling Shareholders in the Offering. See "*Principal and Selling Shareholders*". Accordingly, as a result of these individuals holding both an

economic interest in the Group, and a management position in the Company, there is a potential conflict of interests.

- Certain members of the Board of Directors (i.e., Messrs. Tsoy, Lukyanenko and Skrynnik as well as Messrs. A.V. Molchanov, K.V. Molchanov and N.N. Yamburenko, who are also senior managers of the Group) and a beneficial owner of the Company (i.e., Mr. V. N. Yamburenko) are, together with HMS Technologies and Skye, parties to the Joint Venture Agreement in respect of their shareholdings in HMS Technologies. See "*Principal and Selling Shareholders—Shareholder Arrangements and Nature of Control*". Accordingly, as a result of these individuals being parties to the Joint Venture Agreement in respect of their shareholdings in HMS Technologies and thereby having an economic interest in the Company, as well as holding management positions in the Company, there is a potential conflict of interests.
- Mr. Artem V. Molchanov and Mr. Kirill V. Molchanov are brothers.
- Mr. Yamburenko's son, Vladimir N. Yamburenko, is a shareholder of HMS Technologies. See "*Principal and Selling Shareholders—Selling Shareholders*".

Other than the potential conflicts of interest described above, there are no other known potential conflicts of interest between the Group and the members of the Board of Directors or the senior managers of the Group.

Litigation statement about Directors and senior managers

At the date of this Prospectus, none of the members of the Board of Directors or the Group's senior management for the previous five years:

- has had any conviction in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor

has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Corporate Governance

Since the Company's shares are not listed on the Cyprus Stock Exchange, the Group is not required to comply with the corporate governance regime relating to companies listed on the Cyprus Stock Exchange. The Company has recently appointed two independent non-executive directors and has established audit, and remuneration committees of the Board of Directors. See "*Description of Share Capital and Applicable Cypriot Law—Corporate Governance*".

Committees of the Board of Directors

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

Audit Committee

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

Remuneration Committee

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

Internal auditor

The Group's internal audit function is currently performed by Tatyana A. Bloshenko. The internal auditor is responsible for recommending an audit plan to the audit committee of the Board of Directors. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor also files an annual report with the audit committee and the Board of Directors and must be available for any meetings of the audit committee or the Board of Directors.

PRINCIPAL AND SELLING SHAREHOLDERS

As at the date of this Prospectus, the Company had issued a total of 102,600,000 Ordinary Shares. In the primary portion of the Offering, the Company will issue a further 14,563,427 Ordinary Shares, excluding up to an additional 3,542,455 Ordinary Shares to be issued in connection with the Over-allotment Option, if exercised.

Principal Shareholders

The following table sets forth the holders of the issued Ordinary Shares of the Company, as they appear on the Company's register of members, together with their respective holdings of Ordinary Shares (i) immediately prior to the Offering, (ii) immediately following the Offering, assuming no exercise of the Over-allotment Option, and (iii) immediately following the Offering, assuming the Over-Allotment Option is exercised in full.

	Immediately prior to the Offering		Immediately following the Offering		Immediately following exercise of the Over-Allotment Option	
Shareholder	**Number of Ordinary Shares**	**Percentage**	**Number of Ordinary Shares**	**Percentage**	**Number of Ordinary Shares**	**Percentage**
HMS Technologies[(1)(2)]	96,564,700	94.1%	73,523,421	62.8%	72,701,876	60.2%
Skye[(3)]	6,035,294	5.9%	—	0.0%	—	0.0%
German A. Tsoy[(4)]	2	0.0%	2	0.0%	2	0.0%
Vladimir V. Lukyanenko[(5)]	1	0.0%	1	0.0%	1	0.0%
Artem V. Molchanov[(6)(7)]	1	0.0%	1	0.0%	1	0.0%
Kirill V. Molchanov[(6)(7)]	1	0.0%	1	0.0%	1	0.0%
Nikolay N. Yamburenko[(6)]	1	0.0%	1	0.0%	1	0.0%
BNY (Nominees) Limited[(8)]	—	0.0%	43,640,000	37.2%	48,004,000	39.8%
Total	**102,600,000**	**100.0%**	**117,163,427**	**100.0%**	**120,705,882**	**100.0%**

(1) HMS Technologies is a Selling Shareholder. For information on the beneficial ownership of HMS Technologies, see "*—Selling Shareholders—HMS Technologies*".

(2) The shareholders of HMS Technologies have entered into a Joint Venture Agreement and certain related option agreements governing their shareholdings in HMS Technologies, including the exercise of its voting and other rights as the largest shareholder of the Company, as well as restrictions on transfer of their shares in HMS Technologies. For a discussion of these shareholder arrangements and the nature of control over the Company, see "*—Shareholder Arrangements and Nature of Control*"

(3) Skye is a Selling Shareholder. For information on the beneficial ownership of Skye, see "*—Selling Shareholders—Skye*".

(4) Mr. Tsoy is the Chairman of the Board of Directors of the Company; see "*Directors and Senior Management—Board of Directors*." He is a shareholder of HMS Technologies; see "*—Selling Shareholders—HMS Technologies*."

(5) Mr. Lukyanenko is a member of the Board of Directors of the Company; see "*Directors and Senior Management—Board of Directors*." He is a shareholder of HMS Technologies and of Skye; see "*—Selling Shareholders—HMS Technologies*" and "*—Selling Shareholders—Skye*."

(6) Messrs. Molchanov, Molchanov and Yamburenko are members of the Board of Directors of the Company; see "*Directors and Senior Management—Board of Directors*." Each is a shareholder of HMS Technologies; see "*—Selling Shareholders—HMS Technologies*."

(7) Messrs. Molchanov and Molchanov are brothers.

(8) BNY (Nominees) Limited holds the Ordinary Shares registered in its name as custodian for the Depositary.

Selling Shareholders

HMS Technologies

HMS Technologies is H.M.S. Technologies Limited, a company organised and existing under the laws of Cyprus under registration number HE 277348 with its registered office and principal place of business at Romanou, 2, Tlais Tower, 6th floor, Office 601, P.C. 1070, Nicosia, Cyprus. HMS Technologies will offer up to 23,041,279 Ordinary Shares in the form of GDRs in the Offering, excluding up to an additional 821,545 Ordinary Shares in the form of GDRs to be sold in connection with the Over-allotment Option, if exercised.

At the date of this Prospectus, the shareholders of HMS Technologies who hold at least 2% of the shares in it, as shown in its register of members, and their respective shareholdings in it, are as set forth in the table below.

	Shareholdings in HMS Technologies	
Shareholder	**Number of Shares**	**% of Issued Share Capital**
Vladimir V. Lukyanenko[1]	32,425,703	33.5%
German A. Tsoy[1]	27,341,702	28.3%
Artem V. Molchanov[1]	9,261,799	9.6%
Nikolai N. Yamburenko[1][2]	8,073,877	8.4%
Vladimir N. Yamburenko[2]	6,235,393	6.5%
Yury N. Skrynnik[1]	3,602,856	3.7%
Kirill V. Molchanov[1]	2,897,639	3.0%
Others[3]	6,828,331	7.1%
Total	**96,667,300**	**100.0%**

(1) In addition to being shareholders in HMS Technologies, a Selling Shareholder in the Offering, these individuals are also Directors or Senior Managers in the Company.

(2) Nikolai Yamburenko is the father of Vladimir Yamburenko.

(3) The other shareholders of HMS Technologies include Skye (holding 308 shares) and certain senior and other managers of the Group.

Skye

Skye is Skye Commercial Corp., a company organised and existing under the laws of the British Virgin Islands under registration number 1619077 with its registered office and principal place of business at Morgan & Morgan Building, P.O. Box 958, Pasea Estate, Road Town, Tortola, BVI. Skye will offer up to 6,035,294 Ordinary Shares in the form of GDRs in the Offering.

At the date of this Prospectus, the shareholders of Skye who hold at least 2% of the shares in it, as shown in its register of members, and their respective shareholdings in it, are as set forth in the table below.

	Shareholdings in Skye	
Shareholder	**Number of Shares**	**% of Issued Share Capital**
Vladimir V. Lukyanenko[1]	5,154,745	85.4%
Yury N. Skrynnik[1]	572,749	9.5%
Sergey E. Mikulenko[2]	307,800	5.1%
Total	**6,035,294**	**100.0%**

(1) In addition to being shareholders in HMS Technologies, a Selling Shareholder in the Offering, these individuals are also Directors or Senior Managers in the Company.

(2) Mr. Mikulenko was a member of the board of directors of HMS Group from 2008 to 2009.

Shareholder Arrangements and Nature of Control

Effective Ownership of the Company

The principal shareholder of the Company is HMS Technologies, which, immediately following the Offering, will own and control 62.8% of the Ordinary Shares (assuming no exercise of the Over-allotment Option) and the voting rights attaching to them. As a result of HMS Technologies' stake in the Company, three groups of beneficial owners of HMS Technologies indirectly control the Company through their shareholdings in HMS Technologies. These groups of beneficial owners are as follows:

(i) the Group's founders, German Tsoy, Artem Molchanov and Kirill Molchanov and three of their associates, who together hold 100% of the Class A ordinary shares in HMS Technologies (the "**A Shareholders**");

(ii) private investor Vladimir Lukyanenko and Group senior manager Yuri Skrynnik and their investment vehicle Skye, one of the Selling Shareholders, which holds Class B ordinary shares in

HMS Technologies (the "**B Shareholders**"). The B Shareholders also hold an indirect interest in the Company through their shareholdings in Skye; see "*—Selling Shareholders—Skye*"); and

(iii) Nikolay Yamburenko, Vladimir Yamburenko and an associate, who each hold Class C ordinary shares in HMS Technologies (the "**C Shareholders**").

Collectively, the A Shareholders, the B Shareholders and the C Shareholders hold 92.94% of the ordinary shares of HMS Technologies, with the remaining ordinary shares held by certain senior and other managers of the Group and by Skye (which holds less than 0.01% of the ordinary shares of HMS Technologies) and. See "*—Selling Shareholders—HMS Technologies*").

Following the Offering, the A Shareholders, the B Shareholders and the C Shareholders will beneficially own and control approximately 61% of the votes cast at the general meeting of the Company.

Shareholder Arrangements

Certain shareholders of HMS Technologies have entered into arrangements governing their shareholdings in HMS Technologies, including the exercise of its voting and other rights as the controlling shareholder of the Company, as well as restrictions on transfer of their shares in HMS Technologies. Under a joint venture agreement dated 24 December 2010 between (i) German Tsoy and Artem Molchanov (the "**Majority A Shareholders**"), (ii) the B Shareholders, (iii) Nikolay Yamburenko and Vladimir Yamburenko (the "**Majority C Shareholders**"), and (iv) HMS Technologies (the "**Joint Venture Agreement**"), the parties have agreed, *inter alia*, to the following provisions as in effect on the date of this Prospectus:

Board of Directors of the Company

The board of directors of the Company comprises of nine directors. The B Shareholders together are entitled to nominate one person to be a director of the Company (the "**B Director**") and the A Shareholders are together entitled to nominate all other directors of the Company (the "**A Directors**"), including the independent directors. The A Shareholders and the B Shareholders have the right from time to time to require that the directors of the Company previously appointed by them are dismissed and to nominate other persons to be directors in their place.

HMS Group Companies

The A Shareholders are entitled, at their sole discretion, to appoint and dismiss the executive bodies of each of OJSC HMS Group and its subsidiaries from time to time (each, an "**HMS Group Company**"). The B Shareholders are entitled, at their sole discretion, to appoint and dismiss members of the internal auditing bodies of each HMS Group Company.

The Majority C Shareholder are entitled to nominate one person to be a member of the board of directors of each HMS Group Company. The Majority A Shareholders and the B Shareholders shall each be entitled to appoint half of the remaining members of the board of directors of each HMS Group Company. The Majority A Shareholders, the B Shareholders and the Majority C Shareholders have the right from time to time to require that members of the boards of directors of the HMS Group Companies previously appointed by them are dismissed and to nominate other persons to be members of the boards of directors of the HMS Group Companies in their place.

Reserved Matters

A resolution in respect of any of the following matters (the "**Reserved Matters**") must be approved by the B Director, if it arises at a meeting of the board of directors of HMS Technologies, and by the B Shareholders, if it arises at a general meeting of shareholders of HMS Technologies:

- any changes to the share or charter capital of an HMS Group Company;
- any reorganisation, liquidation, insolvency proceedings or dissolution of an HMS Group Company;
- save for certain transfers between HMS Group Companies, the acquisition by an HMS Group Company of any interest in the share or charter capital of any other company, save for any acquisition (whether by a single transaction or series of transactions, related or not) where the total consideration (including any deferred or contingent consideration, and including the amount of any bank borrowings, loan notes and other external financing which any such company will have immediately following the acquisition) does not exceed US$50,000,000;

- any transfer of any interest in or control of an HMS Group Company which would result in a change of control of that HMS Group Company;
- the incurring of any indebtedness which results or which may result in the consolidated net debt of the HMS Group Companies (calculated in accordance with IFRS and the accounting policies and procedures adopted by HMS Technologies in the preparation of its accounts) exceeding US$250,000,000; and
- the approval of any mid and long term incentive programme for the management of any HMS Group Company.

Restrictions on Transfer and Change of Control

Certain restrictions apply to transfers of ordinary shares of HMS Technologies. Under certain circumstances and subject to certain conditions, the shareholders of HMS Technologies, including the largest individual shareholders, such as Mr. Tsoy and Mr. Lukyanenko, may elect to sell their shares of HMS Technologies to other shareholders of HMS Technologies or Skye, or to exchange such shares for Ordinary Shares of the Company. Any such sale or exchange, if effected, could affect the balance of voting rights amongst the principal shareholders of the Company. In addition, a combination of two or more such sales or exchanges could give rise to a change of control over the Group.

Nature of Control

Although the principal beneficial owners of the Group have historically managed the Group and voted their shares on a consensus basis, there can be no assurance that they will not do so in the future. In addition, so long as the principal beneficial owners of the Group act in concert or vote their shares as a bloc, those principal beneficial owners will have substantial control over the affairs of the Group. The A Shareholders in particular have significant control over the Group by virtue of their contractual rights under the Joint Venture Agreement to appoint all but one of the members of the Board of Directors.

There are no measures in place to ensure that the control exercised by HMS Technologies is not abused.

RELATED PARTY TRANSACTIONS

The Group is required to report all related party transactions, as defined in IAS 24 "Related Party Disclosure," in accordance with EU IFRS. In addition, the Group's Russian subsidiaries are required to comply with applicable Russian law in respect of related party transactions. During the three years prior to the date of this Prospectus, HMS Group has entered into a number of transactions with parties related to HMS Group. The following related party transactions are considered to be significant by the Group. For more information, please see Note 34 to the Annual Financial Statements and Note 30 to the Interim Financial Statements.

Balances with Related Parties

The following table sets out the disclosure by group of related parties with which HMS Group had significant balances outstanding as of 31 December 2007, 2008 and 2009:

	As at 31 December								
	2007			2008			2009		
	Participants[(1)]	Associate	Other[(2)]	Participants[(1)]	Associate	Other[(2)]	Participants[(1)]	Associate	Other[(2)]
	RUR thousands								
Loans issued	—	—	30,220	75,160	—	—	95,074	—	—
Accounts receivable	—	5,672	10,502	1,359	368	5,064	—	6,637	—
Accounts payable	—	4,379	34,407	—	2,768	3,031	—	12,236	36,913

(1) Category 'Participants' consists of legal entities that are direct shareholders of HMS Group, the beneficial owners of which are members of management of HMS Group.

(2) Category 'Other' comprises individuals who are the ultimate shareholders of HMS Group who are also members of management of HMS Group, as well as entities affiliated with such individuals.

The following table sets out the disclosure by group of related parties with which HMS Group had significant balances outstanding as of 30 September 2010:

	As at 30 September		
	2010		
	Participants[(1)]	Associate	Other[(2)]
	RUR thousands		
Loans issued	16,852	—	1,210
Accounts receivable	32,709	14,195	835
Accounts payable	28,000	7,429	13,322

(1) Category 'Participants' consists of legal entities that are direct shareholders of HMS Group, the beneficial owners of which are members of management of HMS Group.

(2) Category 'Other' comprises individuals who are the ultimate shareholders of HMS Group and who are also members of the management of HMS Group.

Income/Expenses on Transactions with Related Parties

The following table sets out the disclosure by group of related parties with which HMS Group entered into significant transactions during the years ended 31 December 2007, 2008 and 2009:

	Year ended 31 December								
	2007			2008			2009		
	Participants[(1)]	Associate	Other[(2)]	Participants[(1)]	Associate	Other[(2)]	Participants[(1)]	Associate	Other[(2)]
	RUR thousands								
Sales of goods and finished products	—	1,186	1,189	—	1,947	431	—	2,643	33,145
Sales of services	—	—	1,802	—	3,943	—	—	13	158
Purchase of services	—	(34,036)	(662)	—	(4,609)	(526)	—	(40,309)	—
Purchase of goods	—	(9,756)	(77,162)	—	(112,175)	(48,670)	—	(34,200)	—
Purchase of raw materials	—	—	—	—	—	—	—	(27,181)	—
Interest income	—	—	541	8,916	—	—	11,620	—	—
Lease	(9,801)	—	(20)	—	—	(40)	—	(25)	(128)

(1) Category 'Participants' consists of legal entities that are direct shareholders of HMS Group, who are also members of management of HMS Group.

(2) Category 'Other' comprises individuals who are the ultimate shareholders of HMS Group, who are also members of management of HMS Group, as well as entities affiliated with such individuals.

The following table sets out the disclosure by group of related parties with which HMS Group entered into significant transactions during the nine-month periods ended 30 September 2009 and 2010:

	Nine months ended					
	2009			2010		
	Participants[(2)]	Associate	Other[(1)]	Participants[(2)]	Associate	Other[(1)]
	RUR thousands					
Sales of goods and finished products	—	1,661	—	—	377	—
Sales of raw materials	—	380	—	—	183	—
Sales of services	—	—	—	—	94	—
Purchase of services	—	(24,893)	—	—	(4,286)	—
Purchase of goods	—	(29,951)	—	—	(33,850)	—
Purchase of raw materials	—	(23,923)	—	—	(5,962)	—
Finance lease expenses	—	(35)	—	—	(42)	—
Interest income	8,267	—	—	5,479	—	—

(1) Category 'Other' comprises individuals who are the ultimate shareholders of HMS Group.

(2) Category 'Participants' consists of legal entities that are direct shareholders of HMS Group, who are also members of management of HMS Group.

Sales and Purchases of Raw Materials, Services and Goods and Finished Products

In the periods under review, HMS Group's related party transactions with associates comprised primarily the purchase of goods and services from HMS Group's two largest associate companies, VNIIAEN, which trades primarily with the Group's industrial pumps business unit and DGKhM, which trades with the Group's industrial pumps and modular equipment business units. See Note 11 to the Annual Financial Statements and Note 10 to the Interim Financial Statements.

In 2007 and 2008, HMS Group's purchases of goods from persons in the category 'Other' comprised primarily purchases of pumps in the ordinary course of business from an entity affiliated with one of the individual beneficial shareholders of HMS Group. This entity is no longer affiliated to the shareholder in question, and the Group continues to trade with it on an arm's length basis. In 2009, the sales of goods and finished products were primarily made to an entity affiliated with the ultimate beneficial shareholders of HMS Group.

HMS Group believes that it entered into the above transactions on arm's length commercial terms.

Financing Arrangements

During the years ended 31 December 2007, 2008 and 2009, HMS Group made short-term loans to related parties in the total amount of RUR 24,500 thousand, RUR 75,160 thousand and RUR 1,100 thousand,

respectively. During the nine-month periods ended 30 September 2009 and 2010, HMS Group made loans to related parties in the total amount of RUR 300 thousand and RUR 400 thousand, respectively. In addition, during the nine-month period ended 30 September 2009, HMS Group received loans from related parties in the total amount of RUR 8,138 thousand. HMS Group made its loans primarily to the legal entities which are direct or indirect shareholders of HMS Group or affiliates of such entities. The weighted average interest rate of such loans was 14.0% in 2009 and 15.5% in the nine months ended 30 September 2010. These shareholder loans were eliminated on consolidation in the Company Interim Financial Statements. See Note 30 to the Company Interim Financial Statements.

During the years ended 31 December 2007, 2008 and 2009 and during the nine-month periods ended 30 September 2009 and 2010, preference dividends of RUR 200,076 thousand, RUR 214,098 thousand, RUR 150,020 thousand, nil and RUR 133,680 thousand, respectively, were accrued and paid by certain HMS Group entities to ultimate shareholders of HMS Group.

CERTAIN REGULATORY MATTERS

There are no laws that relate to the manufacture of industrial pump or modular equipment or the provision of engineering and construction services in Russia, Ukraine or Belarus. However, certain federal laws and regulations contain general requirements applicable to these industries, the key aspects of which are summarised below.

LICENSING

Federal Law No. 128-FZ "On Licensing of Certain Types of Activities" dated 8 August 2001, as amended (the "**Licensing Law**"), establishes a list of activities that can only be performed on the basis of licences issued by the relevant Russian authorities. The key licences required by the Group include, *inter alia*, licences for water use (the "**Water Use Licences and Agreements**"), the collection, use, operations with and transportation of hazardous waste (the "**Hazardous Waste Licences**"), the use of radioactive substances and ionising radiation sources (the "**Radiation Licences**"), the operation of hazardous fire and explosion production facilities (the "**Fire and Explosion Licences**"), activities in the area of geodesics and cartography (the "**Geodesics and Cartography Licences**") and licences for surveying works (the "**Surveying Works Licences**").

Water Use Licences and Agreements

The Group uses water resources for the manufacture of certain pumps and modular equipment. Prior to 1 January 2007, an entity could use surface water resources based on a licence for water use and an agreement for use of surface water resources entered into in accordance with such licence. From 1 January 2007, when the new Water Code of Russia came into effect, the licensing regime was replaced with the use of surface water resources, including their collection and storage, on the basis of either (i) water use agreements concluded with state or local authorities, (ii) permits of state or local authorities allowing to use surface water resources; or (iii) without such agreements or permits, depending on the purpose of use. The Group's use of surface water generally requires it to enter into water use agreements or obtain permits from state or local authorities. Licences issued prior to 1 January 2007 as well as accompanying agreements for use of water resources remain effective until the term of their expiration, upon which a licensee should obtain a right to use surface waters pursuant to the new regime.

The Group also requires subsoil water use licences for certain manufacturing processes. The subsoil licences are issued for up to 25 years by the Federal Agency for Subsoil Use pursuant to the Federal Law No. 2395-1 "On Subsoil", dated 21 February 1992, as amended. Some of the Group's subsidiaries, for example, OJSC HMS Pumps obtained such licence for extraction of process and drinking water.

Hazardous Waste Licences

The Group requires Hazardous Waste Licences for the manufacture of certain pumps and modular equipment, as well as in connection with providing EPC services. Hazardous Waste Licences are issued by Rostekhnadzor pursuant to the Regulation on Licensing of I-IV Hazardous Class Waste Collection, Use, Decontamination, Transportation and Disposal Activities approved by Decree of the Government No. 524 dated 26 August 2006, as amended. The procedures for the issue, monitoring compliance with the terms of, and revocation, of the Hazardous Waste Licences are similar to those applicable to the Explosives Licences.

Radiation Licences

The Group requires Radiation Licences for the construction and manufacture of pumps and pumping equipment for use in nuclear power stations. Radiation Licences are issued pursuant to the Federal Law No. 170-FZ "On Nuclear Energy Use" dated 21 November 1995, as amended (the "**Nuclear Energy Law**"), the Federal Law No. 3-FZ "On Radiation Safety of Residents" dated 9 January 1996, as amended, and regulations implementing these federal laws, including the Regulation on Licensing of Nuclear Energy Use approved by Decree of the Government No. 865 dated 14 July 1997, as amended (the "**Nuclear Licensing Regulation**"), as amended, and the Regulation on Licensing of the Use of Ionising Radiation Sources approved by Decree of the Government No. 107 dated 25 February 2004, as amended. Radiation Licences relating to the use of nuclear energy are granted by Rostekhnadzor for a term of not less than three years, unless a shorter term is requested by the applicant. Radiation Licences relating to the use of ionising radiation sources are granted by the Federal Service on Supervision in the Area of Consumer Rights Protection and Human Well-Being for a term of five years and may be extended upon the licensee's

application. A decision to grant or refuse to grant a Radiation Licence is taken by the licensing agency on a non-competitive basis following a review of the documents explaining the radiation safety arrangements for the planned activity.

The licensing agency may undertake periodic reviews to ensure compliance by licensees with the terms of their licenses and applicable legislation. The licensee is required to inform the licensing agency about any changes relating to the safety of the licensed activity. A Radiation Licence relating to the use of nuclear energy could be suspended or terminated by Rostekhnadzor in certain circumstances, including, inter alia, any breach of applicable regulatory requirements or the terms of the licence, and any failure to comply with the instructions of Rostekhnadzor, including those concerning the suspension of the licensee's operations. If the licensee does not agree with a decision of Rostekhnadzor, including a decision relating to a licence termination, the licensee may appeal through administrative or judicial proceedings.

Fire and Explosion Licences

The Group requires Fire and Explosion Licences for the manufacturing of certain pumps and other activities. Currently, Fire and Explosion Licences are issued pursuant to the Licensing Law, Safety Law and Regulation on Licensing of Operation of Fire and Explosion Dangerous Production Facilities approved by Decree of the Government No. 599 dated 12 August 2008, as amended (the "**Fire and Explosion Regulation**"). The Fire and Explosion Regulation introduced unified rules for granting licences in these spheres of activity. Prior to this, fire-hazardous and highly explosive production facilities were subject to separate licensing requirements. Licences issued prior to the effective date of the Fire and Explosion Regulation are valid until the expiration of their term and will not be reissued or confirmed by Rostekhnadzor under the Fire and Explosion Regulation.

The Fire and Explosion Licences are granted by Rostekhnadzor for a term of five years and may be extended upon application by the licensee. Conditions for the issuance of Fire and Explosion Licences include, inter alia, documentary proof of third-party liability and environmental liability insurance policies in the event of an accident at the relevant production facility. Licences are granted on a non-competitive basis and are issued upon the relevant filing by an applicant provided that the following conditions are met, among others: (i) correct and complete documents have been filed and (ii) the applicant or facilities owned or used by the applicant comply with applicable licensing and certification requirements, including, for example, obtaining certain permits provided by the Safety Law and compliance with industrial safety regulations. The procedures for monitoring compliance with the terms of, and revocation of, the Fire and Explosion Licences are similar to those applicable to the Explosives Licences and the Hazardous Waste Licences.

Geodesics, Cartography and Surveying Works Licences

The Group is required to obtain Geodesics and Cartography Licences and Surveying Works Licences for certain of its R&D activities. The licensing regime for geodesics and cartographic activities and for surveying works is expected to be replaced by technical regulations issued under the Federal Law No. 184-FZ "On Technical Regulation" dated 27 December 2002, as amended (the "**Technical Regulation Law**"), which sets forth mandatory requirements for these types of activities. As of the date of this Prospectus, these technical regulations have not been adopted. Therefore, geodesics, cartographic and surveying activities continue to be conducted pursuant to licences. Geodesic and Cartography Licences are issued pursuant to the Licensing Law, the Federal Law No. 209-FZ "On Geodesy and Cartography" dated 26 December 1995, as amended, and the Regulation on Licensing of Activity in the Area of Geodesy and Cartography approved by Decree of the Government No. 705 dated 21 November 2006, as amended. The Geodesics and Cartography Licences are granted by the Federal Service on State Registration, Cadastre and Cartography for a term of five years and may be extended upon application by the licensee. The Surveying Works Licences are issued pursuant to the Licensing Law and Decree of the Government No. 392 dated 26 June 2006, as amended. Surveying Works Licences are granted by Rostekhnadzor for a term of five years. These licences are granted on a non-competitive basis and are issued following a filing by an applicant, provided that, *inter alia*, (i) correct and complete documents have been filed and (ii) the applicant or equipment owned or used by it comply with applicable licensing terms, including, for example, staff qualification and maintenance of internal compliance and control systems.

State Secret Information Licences

Some of the Group's companies hold licences permitting them to work with information controlled by state secrecy laws (the "**State Secret Licences**"). The procedure for the issue of a State Secret Licence is set forth in the Federal Law No. 5485-1 "On State Secrets" dated 21 July 1993, as amended (the "**State Secret Law**"), and the implementing regulations, including the Regulation on Licensing of Activities of Enterprises, Agencies and Organisations Involving Use of Information Constituting State Secret, Creation of Information Security Products and Carrying Out Activities and (or) Rendering Services on State Secret Protection approved by Decree of the Government No. 333 dated 15 April 1995, as amended. The Decree of the President of Russia No. 1203 dated 30 November 1995, as amended, sets forth the list of information which may constitute a state secret, which includes, inter alia, the following:

- information on the volume of production or supplies of, strategic raw and consumable materials;
- information disclosing hydrometeorological, heliogeophysical results or specific geological and geophysical studies aimed at strengthening state security;
- geospatial data about the territory of Russia disclosing the results of topographic, geodesic and cartographic activity, which may have strategic defence and economic significance; and
- information on the volume of subsoil reserves, production (extraction), transfer or consumption of strategic minerals (in accordance with a list approved by the Government) in Russia generally, in a constituent entity of Russia or in a major field.

State Secret Licences are granted by the Federal Security Service of Russia on a non-competitive basis for a term of up to five years. The licences are issued following a filing by the applicant provided that (i) the Federal Security Service has issued an affirmative conclusion following an expert's examination and (ii) the chief executive officer of the applicant has been personally certified under the State Secret Law. The licensing terms to obtain State Secret Licences also include, *inter alia*, compliance with various requirements on state secret protection, staff qualification, availability of a special department for state secret security and availability of information security facilities certified by relevant governmental agencies.

Construction Permits and Competency Certificates

Since 1 January 2010 construction works in Russia are no longer subject to licensing. Currently, in order to carry out construction activities a construction company must join a self-regulated organisation which, in case of compliance of the relevant company with certain requirements, issues competency certificates to such company. Each self-regulated organisation has its own requirements and can inspect its members for compliance with such requirements at least once a year. If the inspection identifies violations, the company may lose its membership and, consequently, the right to carry out construction works. Self-regulated organisations are subject to regular governmental inspections by Rostekhnadzor, at least once in two years, as well as to ad hoc inspections on the basis of third parties' applications. Rostekhnadzor carries out governmental control over self-regulated organisations. If such inspections identify violations by self-regulated organisations of applicable requirements, as set out in the Urban Planning Code of Russia and the Federal Law No. 315-FZ "On Self-Regulated Organisations" dated 1 December 2007, as amended, such organisations may be divested of their status by court. Where a self-regulated organisation loses its status, for example, as a result of an unfavourable outcome of a governmental inspection, its members will loose their respective competency certificates and will no longer be able to carry out construction works.

STANDARDISATION AND CERTIFICATION

Production processes are regulated generally by the Technical Regulation Law. This law contains provisions on technical regulations, standardisation, certification, accreditation of certification agencies and test laboratories, state control over compliance with the requirements of technical regulations, penalties for violations of technical regulations, product withdrawals and other related issues.

Pumps and modular equipment manufactured by the Group's business units are subject to certification in accordance with the Rules of Certification in Russia approved by the Resolution No. 26 of the State Committee for Standardisation and Metrology of Russia, dated 10 May 2000, as amended, which establishes the procedure for certification, the basis for the issue of compliance certificates and other related rules. In case of expiration, termination or suspension of certificates issued to the Group in respect of its products the relevant products shall no longer be manufactured for sale.

The Group believes that it is in compliance with the standardisation and certification requirements to its facilities, products and services. The Group also believes that its operating facilities, including hazardous industrial facilities, are in compliance with Russian legislation.

Tender Procedures

The Group obtains certain of its major contracts from state-controlled companies and natural monopolies, such as, for example, Rosatom and Transneft, which are subject to mandatory tender procedures. According to Federal Law No. 94-FZ "On Placement of Orders for Supplies, Performance of Works and Rendering Services for State and Municipal Needs" dated 21 July 2005, as amended, a company must file an application to participate in a tender held by a state or municipal entity or a natural monopoly. An applicant must meet certain requirements in order to take part in the tender process, in particular to provide information on its qualification and financial position. Failure to provide such information could result in the applicant being forced to withdraw from the tender. Failure to comply with the tender procedures could lead to the invalidation of the awarded contracts.

Legal Protection of Intellectual Property

The Group holds a number of patents and trademarks which are subject to intellectual property regulation. Russian intellectual property legislation consists for the most part of the Civil Code of Russia, specifically its new Part IV that came into effect as of 1 January 2008. Part IV of the Civil Code has codified and replaced virtually all preceding individual intellectual property laws.

Patents

Patents are granted by the Federal Service for Intellectual Property, Patents and Trademarks ("**Rospatent**"). The maximum duration of patent protection for an invention is 20 years from the date of the application, subject to payment of annuities. The right to obtain a patent belongs to the inventor, his/her employer (in the event the invention is made in the course of employment) and their assignees. The term of a utility model's patent protection is ten years and may be extended for an additional period not exceeding three years. Industrial design patent protection is granted for 15 years and may be extended for an additional period not exceeding ten years. Licence agreements with respect to patented inventions, utility models and industrial designs are subject to registration with Rospatent.

Trademarks

Trademark protection in Russia may be obtained either through its national registration with Rospatent or through an extension of an international registration in Russia. The trademark protection period in respect of Russian trademark registrations is ten years from the application filing date, renewable for subsequent ten year periods. Trademark assignment agreements and licence agreements are void unless registered with Rospatent.

Copyright

Copyright protection is granted to works of science, literature and the arts. Copyright protection also applies to computer programs (which are protected as literary works) and databases (which are protected as compilations). Generally, copyright protection arises by virtue of the creation of a work and is not subject to any registration requirements. However, a software developer may register its product with Rospatent. The term of copyright protection is the lifetime of the author, plus 70 years after his/her death. If a work is made for hire, the employer obtains the proprietary rights to the work unless employment contract provides otherwise, while the actual author retains moral rights which are inalienable under Russian law.

Trade Secrets and Know-How

The use of trade secrets and know-how is regulated by Part IV of the Civil Code and the Federal Law No. 98-FZ "On Commercial Secret" dated 29 July 2004, as amended. Information may be treated as a trade secret only if: (i) it has real or potential commercial value due to the fact that it is unknown to third parties; (ii) it is not freely accessible using lawful means; (iii) the owner has taken reasonable measures to protect its confidentiality, including legal, organisational, technical and other measures; and (iv) its confidentiality enables the owner of such information to increase its revenues, avoid additional expenses or obtain other commercial benefits. An employee who has obtained access to a trade secret of the employer

is obliged to keep such information confidential until termination of the exclusive right to the trade secret. Know-how developed by an employee belongs to the employer.

ENVIRONMENTAL MATTERS

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law No 7-FZ "On Environmental Protection", dated 10 January 2002 (the "**Environmental Protection Law**"), as amended, as well as by a number of other federal and local legal acts.

Pay-to-Pollute

The Environmental Protection Law established a "pay-to-pollute" regime administered by federal and local authorities. The Government has established standards relating to the permissible impact of pollution on the environment and, in particular, has established rules for approving limits for emissions, waste disposal and resource extraction. An applicant may obtain approval to exceed these statutory limits from the federal or regional authorities, depending on the type and scale of the potential environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by an applicant and cleared with the appropriate governmental authority, and an applicant must apply the best technologies available as well as conduct various activities aimed at achieving statutory limits. Fees, as set forth in Decree of the Government No. 632 dated 28 August 1992, as amended, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological Approval

Activities that may negatively affect the environment are subject to ecological approval by the competent authorities in accordance with the Federal Law No. 174-FZ "On Ecological Expert Examination" dated 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in "—*Environmental Liability*" below.

Enforcement Authorities

The Federal Service for the Supervision of the Use of Natural Resources and Rostekhnadzor are involved in environmental control, and together with the Federal Agency on Subsoil Use and the Federal Agency on Water Resources (along with their regional branches) are engaged in the implementation and enforcement of relevant laws and regulations. The Government and the Ministry of Natural Resources and Ecology are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-profit organisations, also have the right to initiate lawsuits seeking compensation for damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental Liability

If the operations of a company violate environmental requirements or cause harm to the environment, environmental authorities may suspend these operations or a court action may be brought to limit or ban those operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Health and Safety

Due to the nature of the Group's business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating the safety of employees at industrial workplaces and to which the Group is subject is the Safety Law. The Safety Law also contains regulations relating to the use and storage of dangerous substances and which apply to the Group's facilities and sites. The Group's oil and gas equipment production facilities and EPC services for oil and gas industry are also subject to the Rules of Safety in the Oil and Gas Industry, dated 5 June 2003 approved by Decree No. 56 of the Federal Mining and Industrial Inspection.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia (the "**Labour Code**"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or to create their own wrecking services in certain cases, conduct personnel training programs, create systems to respond to and inform Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

Rostekhnadzor has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of this investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Antimonopoly Regulation

Federal Law No. 135-FZ "On Competition Protection" dated 26 July 2006, as amended (the "**Competition Law**") provides for a mandatory pre-approval by FAS of the following transactions:

- an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company (1/3 participation interest in a limited liability company) and the subsequent increase of these shares up to more than 50% and more than 75% of the voting shares (1/2 and 2/3 participation interest in a limited liability company);
- acquisition by a person (or its group) of the core production assets (with certain exceptions) and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or
- obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group),

if any of the following thresholds are met:

(i) aggregate asset value of the acquirer (or its group) together with the target (or its group) exceeds RUR7 billion and the total asset value of the target (its group) exceeds RUR250 million;

(ii) the total annual revenues of an acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RUR10 billion and the total asset value of the target (its group) exceeds RUR250 million; or

(iii) if an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the register of entities having a market share in excess of 35% on a particular commodity market or having a dominant position on a particular commodity market maintained by FAS (the "**Register**").

Furthermore, the Competition Law provides for a mandatory pre-approval by FAS of the following actions:

- mergers and consolidations of entities, if any of the following thresholds are met:
  - their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUR3 billion;
  - total annual revenues of such entities (groups of persons to which they belong) for the preceding calendar year exceed RUR6 billion; or
  - one of these entities is included into the Register; or
- foundation of an entity, if any the following thresholds are met:
  - its charter capital is paid by the shares (participation interest) and/or the assets of another entity (save for monetary means) or the newly founded entity acquires the rights in respect of such shares (participation interest) and/or assets as specified in the Competition Law provided that the aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity exceeds RUR7 billion;
  - total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity for the preceding calendar year exceed RUR10 billion; or
  - the entity whose shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity is included in the Register.

The Competition Law stipulates certain carve-outs from this rule providing for post-transactional notification to FAS instead of FAS pre-approval. The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing of the transaction) to FAS in connection with the transactions specified above, if the aggregate asset value or total annual revenues of the acquirer (its group) and the target (its group) for the preceding calendar year exceeds RUR400 million and the total asset value of the target (its group) exceeds RUR60 million.

The Competition Law expressly provides for its extraterritorial application to transactions which are made outside of Russia but lead, or may lead, to the restriction of competition in Russia and relate to assets located on the territory of Russia or to the shares (participation interests) in Russian companies or rights in relation to such companies.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and, for example, acquired shares without obtaining the prior approval of FAS, the transaction may be invalidated by a court order initiated by FAS, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of antimonopoly legislation.

Foreign Investments in Strategic Enterprises

The Strategic Foreign Investment Law No. 57-FZ dated 29 April 2008 (the "**Strategic Foreign Investment Law**"), as amended, sets forth certain restrictions relating to foreign investments in Russian companies of "strategic importance" (the "**Strategic Companies**"). Pursuant to the Strategic Foreign Investment Law, companies engaged in certain activities in the area of aviation, space exploration and technology, cryptography, certain activities involving use of subsoil resources, transportation, TV and radio broadcasting, certain telecommunication services, as well as certain military-related industries, are considered to be strategically important and foreign investments in such companies are subject to regulations and restrictions set out by the Strategic Foreign Investment Law.

As of the date of this Prospectus, the Group's subsidiaries HMS Neftemash, Tomskgazstroy and NRS are considered to be strategically important by virtue of holding licences for conducting activities with ionising radiation sources, HMS Pumps, by virtue of holding a licence for the construction of equipment for use in nuclear stations, and Hydromashservice—by virtue of holding licences for the construction and manufacture of equipment for use in nuclear power stations in the course of the performance of research and development activities and design, engineering and construction works.

Starting from the effective date of the Strategic Foreign Investment Law, a foreign investor seeking to obtain direct or indirect control over a strategically important company is required to have the respective transaction pre-approved by the Commission. FAS is authorised to process applications for pre-approval by the Commission which are received from foreign investors. "Control" means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders' (participants') meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organisation of the Strategic Company, or otherwise. As a result, control will be deemed to exist, for instance, where (i) an entity or a group of entities directly or indirectly acquires more than 50% of the shares (or participation interest in the share capital) of a Strategic Company, or (ii) through contract or otherwise it is able to appoint the sole executive body, more than 50% of the members of the board of directors or of the management board of a Strategic Company or it has the right to determine decisions of the Strategic Company, including the conduct of its business. The above "control-setting" numerical threshold is lowered to 25% where a foreign investor is a foreign state, an international organisation or an entity under control of a foreign state / international organisation. Furthermore, if a foreign entity or group of entities holding securities of a Strategic Company or other entity that exercises control over these companies becomes a direct or indirect holder of such number of voting shares that is sufficient to give it direct or indirect control under the Strategic Foreign Investment Law due to a change in allocation of voting shares (e.g. as a result of a buy-back of its shares by the relevant company), then such entity of group of entities will have to apply for state approval within three months after it received such control. If the Commission refuses to grant the approval, such shareholder is required to sell the relevant part of its respective stake. If the shareholder does not comply with this requirement, a Russian court can deprive such foreign entity or group of entities from its voting rights in such Strategic Company upon a claim of the competent authority. The shares held by a shareholder thus deprived of its voting rights are not counted for the purposes of determining the quorum and counting votes at the general shareholders' meeting of the Strategic Company.

If a foreign entity or group of entities obtains control over a Strategic Company in violation of the Strategic Industries Law, the relevant transaction is void. The deprivation of voting rights, as described above, may follow, to the extent the court is unable to apply to apply general consequences of voidness of a transaction. In addition, resolutions of the general shareholders' meetings or other management bodies of a Strategic Company adopted after a foreign entity or group of entities obtained control over the Strategic Company in violation of the Strategic Foreign Investment Law, as well as transactions made by the Strategic Company after obtaining such control, may be invalidated in court upon a claim of the competent authority. In addition, foreign investors are required to notify the Commission about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies.

EMPLOYMENT AND LABOUR

Labour matters in Russia are primarily governed by the Labour Code of Russia. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws, such as

the Federal Law No. 1032-1 "On Employment in Russia," as amended, and other acts adopted in accordance with these laws.

Employment Contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by the Labour Code.

An employer may terminate an employment contract only on the basis of the specific grounds set out in the Labour Code.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

Any termination of an employment contract by an employer that is inconsistent with the Labour Code requirements may be challenged by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work Time and Salary

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid leave under the law is generally four weeks. The retirement age in Russia is 60 for males and 55 for females.

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is currently RUR 4,330 per month. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for strikes to be considered legal. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the influence of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, the Group's management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of the Group's business.

The activities of trade unions are generally governed by the Federal Law "On Trade Unions, Their Rights and Guarantees of Their Activity" No. 10-FZ dated 12 January 1996 (the "**Trade Union Law**"), as amended. Other applicable legal acts include the Labour Code, which provides for more detailed regulations relating to the activities of trade unions.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

Energy Efficiency

Federal Law "On Energy Efficiency" No. 261-FZ dated 23 November 2009 (the "**Energy Efficiency Law**"), as amended, sets out measures designed to stimulate energy efficiency. Accordingly, governmental bodies are authorised, *inter alia*, to develop federal programs on energy efficiency, establish rules for the determination of classes of energy efficiency products and to establish an energy efficiency measures list. The Energy Efficiency Law introduced a provision according to which goods produced in Russia and imported to Russia must contain information on energy efficiency in their technical documentation, as well as on their labels. Moreover, it provides for a mandatory examination procedure for (i) organisations involved in the production and/or transport of water, natural gas, thermal power, electric power, extraction of natural gas and oil and petrochemicals; (ii) organisations whose aggregate costs of natural gas, diesel and other fuel, thermal power, coal or electricity exceed RUR 10 million per year and (iii) certain other entities. Such examination must be performed at least once in five years.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE CYPRIOT LAW

Set forth below is a description of the Company's Share Capital, the material provisions of the Company's memorandum and articles of association in effect on the date of this Prospectus and certain requirements of Cypriot legislation. Holders of GDRs will be able to exercise their rights in respect of the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the Deed Poll (see "*Terms and Conditions of the Global Depositary Receipts*") and the relevant requirements of Cypriot law.

Purpose

The Company's purpose includes, amongst other things, the carrying on of investments and trade. The Company's objects are set forth in full in Clause 3 of its Memorandum of Association.

Share Capital

The Company was incorporated as Bishopstow Holdings Plc on 27 April 2010 as a public limited company with an authorised share capital of EUR 26,000 divided into 26,000 ordinary shares of EUR 1 each.

On 7 June 2010, pursuant to the unanimous written resolution of the general meeting of the Company, the existing authorised share capital of EUR 26,000, divided into 26,000 ordinary shares of EUR 1 each, was subdivided into 2,600,000 ordinary shares of EUR 0.01 each.

On 18 June 2010, pursuant to the unanimous written resolution of the general meeting of the Company, it was decided to change the name of the Company from Bishopstow Holdings Plc to H.M.S. Hydraulic Machines and Systems Group Public Co. Limited. The name was approved by the registrar of companies of Cyprus on 29 June 2010.

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

On 15 November 2010, pursuant to the unanimous written resolution of the general meeting of the Company, it was decided to change the name of the Company from H.M.S. Hydraulic Machines and Systems Group Public Co. Limited to HMS Hydraulic Machines & Systems Group Plc. The name was approved by the registrar of companies of Cyprus on 3 January 2011.

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

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

As at the date of this Prospectus, the Company's issued share capital consisted of 102,600,000 Ordinary Shares, which are fully paid. The Company's authorised share capital consists of 120,705,882 Ordinary Shares. Assuming 18,105,882 Ordinary Shares are issued in connection with the Offering, the Company's authorised and issued fully paid share capital immediately following the Offering will be 120,705,882 Ordinary Shares (assuming exercise of the Over-allotment Option in full).

The Company does not have in issue any listed or unlisted securities not representing its share capital.

Neither the Company nor any of its subsidiaries (nor any party on its behalf) holds any of its Ordinary Shares.

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

The Company's articles of association and the Companies Law, Cap 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and, following the Offering, will apply to the Company's authorised but unissued share capital. Subject to certain limited exceptions, unless

the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Company's shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

Articles of Association

The Company's current articles of association were adopted on 27 April 2010.

The following is a brief summary of certain material provisions of the Company's articles of association as will be in effect on and immediately prior to the Closing Date.

Rights Attaching to Ordinary Shares

All Ordinary Shares have the same rights attaching to them, a summary of which is set forth below.

Issue of Shares

Under the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended (the "**Law**") the Ordinary Shares shall be at the disposal of the directors who, upon complying with the provisions of the articles of association and Sections 60A and 60B of the Law, may allot or otherwise dispose of any unissued shares in the appropriate manner as regards the persons, the time and, in general, the terms and conditions as the directors may decide, provided that no share shall be issued at a discount, unless provided for in Section 56 of the Law.

Pre-emption Rights

Subject to any instructions to the contrary which may be included in a resolution approved at a general meeting of the Company in accordance with the provisions of Section 60B of the Law, all new shares and/or other securities giving right to the purchase of shares in the Company or which are convertible into shares of the Company (apart from shares issued for a non-cash consideration), shall be offered before their issue to the shareholders of the Company on a pro-rata basis of the participation of each shareholder in the capital of the Company, on a specific date fixed by the directors. Any such offer shall be made upon written notice to all the shareholders specifying the number of the shares and/or other securities giving right to the purchase of shares in the Company or which are convertible into shares in the Company, which the shareholder is entitled to acquire and the time period (which shall not be less than fourteen days from the dispatch of the written notice) within which the offer, if not accepted, shall be deemed to have been rejected. If, until the expiry of the said time period, no notification is received from the person to whom the offer is addressed or to whom the rights have been assigned that such person accepts all or part of the offered shares or other securities giving right to the purchase of shares in the Company or which are convertible into shares of the Company, the Directors may dispose of them in any manner as they deem more advantageous for the Company. The Company may, in like manner, dispose of any such new or original shares as aforesaid, which, by reason of the proportion borne by them to the number of persons entitled to such offer as aforesaid or by reason of any other difficulty in apportioning the same, cannot in the opinion of the Company be conveniently offered in the manner hereinbefore provided. Provided that this provision shall take effect in the cases where the proposed shares shall be issued against contributions in cash.

Voting Rights

Subject to any special rights or restrictions as to voting attached to shares (of which there are none at present), every holder of shares who is present in person or by proxy shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each share held by him or her. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate member could exercise if it were an individual member.

No member shall be entitled to vote at any general meeting unless all calls or other sums presently owed by him in respect of his shares in the Company have been paid.

Dividend and Distribution Rights

The Company may in a general meeting declare dividends, but no dividend shall exceed the amount recommended by the directors. The directors may from time to time and subject to the provisions of Section 169F of the Law pay to shareholders such interim dividends (including the fixed dividends payable at fixed times) on any preference shares or other shares as appear to the directors to be justified by the Company's profits but no dividend will be paid otherwise than out of profits.

The directors may set aside out of the Company's profits such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for any purpose to which the Company's profits may, at the like discretion, either be employed in the Company's business or be invested in such investments (other than the Company's shares) as the directors may from time to time think fit. The directors may also, without placing the same in the reserve, carry forward to the next year any profits which they may think prudent not to divide.

Variation of Rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class may, subject to the provisions of Sections 59A and 70 of the Law, whether or not the Company is being wound up, be amended or abolished with the sanction of a resolution approved in accordance with the provisions of Section 59A of the Law at a separate general meeting of the holders of the shares of the class.

Alteration of Capital

The Company may by resolution taken in accordance with the provisions of Section 59A of the Law:

1. increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
2. consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares;
3. subdivide its existing shares, or any of them, into shares of a smaller amount than is fixed by the memorandum of association subject, nevertheless, to the provisions of Section 60(1)(d) of the Law; and
4. cancel any shares which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person.

The Company may also, by special resolution, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and subject to any terms required by the Law.

Redemption of shares

Subject to the provisions of Section 57 of the Law, any preference shares may, with the sanction of an ordinary resolution, be issued on the condition that they are, or at the option of the Company are liable to be, redeemed on such terms and in such manner as the Company, prior to the issue of such shares, may by special resolution determine.

Winding Up

If the Company shall be wound up, the liquidator, may, with the sanction of an extraordinary resolution of its shareholders, and any other sanction required by the Law:

- divide amongst the shareholders in kind or in specie all or part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the shareholders or different classes of shareholders; and
- vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator shall think fit, but so that no shareholder shall be compelled to accept any shares or other securities whereon there is any liability.

Form and Transfer of Shares

The instrument of transfer of any share shall be executed by or on behalf of the transferor and the transferee, and the transferor shall be deemed to be the holder of the share until the name of the transferee is entered into the register of members in relation to such share. Subject to the restrictions in the articles of association, as they may apply, shareholders are entitled to transfer all or any of their shares by instrument of transfer in any usual or common form or in any other form, including electronic form, which the directors may approve.

The directors may refuse to register the transfer of a share on which the Company has a lien and may refuse to recognise any instruments of transfer unless:

1. the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the directors may reasonably require, to prove the transferor's right to proceed with the transfer; and
2. the instrument of transfer is in respect of only one class of shares.

Notwithstanding any other provisions in the articles of association, no restrictions shall apply to the transfer of any shares which are transferred pursuant to the enforcement of a pledge in favour of a bank or financial institution or a subsidiary of a bank or financial institution to whom such shares have been charged or pledged by way of security or any nominee or nominees of such bank or financial institution or subsidiary (as the case may be) or any other party to which the shares are being transferred pursuant to such security.

Directors

Number of Directors

Unless and until otherwise determined by the Company in general meeting, the number of directors shall not be less than two (2) and there shall be no maximum. The Company may, from time to time, by ordinary resolution, increase or reduce the number of directors, provided that such number shall not be smaller or greater than the minimum or maximum number of directors as provided in the articles of association.

Board of Directors

The quorum necessary for the transaction of the business of the directors may be fixed by the directors, and unless so fixed shall be at least half of the total number of Directors attending a meeting in person or by an alternate shall form a quorum. Provided however that so long as the Company, pursuant to the provisions of these Regulations, has only one director a resolution in writing signed by such director in accordance with the articles of association shall be deemed in all respects as a resolution of the directors passed at a meeting of the directors at which a quorum was present.

Questions arising at any meeting of the Board of Directors shall be decided by a majority of votes. In the case of equality of votes, the chairman shall have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time, summon a meeting of the directors. A resolution in writing signed or approved by letter, telex, facsimile or telegram by all directors or their alternates, shall be as valid and effectual as if it had been passed at a meeting of the directors duly convened and held. Any such resolution in writing signed as aforesaid may consist of several documents each signed by one or more of the persons aforesaid.

The directors may delegate any of their powers to a committee or committees consisting of one or more members of their body as they think fit; any committee so formed shall, in the exercise of the powers so delegated to it, comply with the rules which may have been imposed on it by the directors, in respect of its powers, composition, proceedings, quorum or any other matter.

Appointment of Directors

No person other than a director who withdraws during the meeting shall be entitled to be elected in the position of the director at any general meeting unless proposed by the directors, or unless a written notice, signed by a shareholder who is entitled to attend and vote at the said meeting of the Company is delivered to the registered office of the Company, stating his intention to propose the said person for election, along with a written notice signed by the said person, stating his readiness to be elected, at least three and no more than twenty-one days before the date fixed for the meeting.

The directors have, at any time and from time to time, authority to appoint each time any person as their member either to fill a vacant position or as an additional member to the existing members of the Board of Directors, on condition that the overall number of such members shall in no case exceed the number specified in the articles of association. Every director so appointed shall keep his position only until the following annual general meeting, where he shall have the right to be re-elected.

The Company may by ordinary resolution, of which special notice has been given in accordance with Section 136 of the Law, remove any director before the expiration of his period of office notwithstanding anything in the articles of association or in any agreement between the Company and such director. Such removal shall be without prejudice to any claim such director may have for damages for breach of any contract of service between him and the Company.

The Company may, at any time and from time to time (without prejudice to the powers of the directors mentioned above) appoint by ordinary resolution any person as director and specify the period during which the said person shall hold this position.

- The office of director shall be vacated if the director:
- loses such capacity by virtue of Section 176 of the Law; or
- becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- becomes prohibited from being a director by reason of any order made under Section 180 of the Law; or
- becomes permanently incapable of performing his/her duties due to mental or physical illness or due to his/her death; or
- resigns his office by notice in writing to the Company.

Directors' Interests

A director who has in any way, a direct or indirect interest in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the directors in accordance with Section 191 of the Law. Directors who have an interest in any contract, agreement or settlement proposed to be concluded with third parties may attend the meeting at which the matter is discussed but shall not have the right to vote.

A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the Company shall declare the nature of his interest at the meeting of the directors at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the directors after he knows that he is or has become so interested.

The directors may hold any other office or profit making position in the Company (other than the office of auditor) along with the office of director for such period and on such terms (as to remuneration and other matters) as the directors may determine; and no director or intending director shall be disqualified on the grounds of holding such office, from contracting with the Company whether with regard to his tenure or any such other office or place of profit or as a vendor, purchaser or otherwise; nor shall any such contract, or any contract or settlement concluded by or on behalf of the Company in which any director has, in any way, interest, be liable to be cancelled; nor shall any director so contracting or having such an interest be liable to account to the Company for any profit realised by any such contract or settlement by reason of such director holding that office or of the fiduciary relationship thereby established.

The directors may act either personally or by their firm in a professional capacity for the Company, and the director or his firm shall be entitled to remuneration for professional services as if he were not a director; provided that nothing herein contained shall authorise a director or his firm to act as auditor to the Company.

The remuneration of the directors shall be determined from time to time by the Company in general meeting. Any director who, upon the request of the Company, offers special services to the Company or needs to travel or stay abroad serving the purposes of the Company, shall receive from the Company such additional remuneration in the form of salary, grant, out-of-pocket expenses or in any other manner as the directors may decide. In addition to and independently of such remuneration, any managing directors shall receive such remuneration as the directors may determine from time to time.

The shareholding qualification for directors may be determined by the Company in general meeting; unless and until so determined, no qualification shall be required.

Directors' Powers

The business of the Company shall be managed by the directors, who may exercise all such powers of the Company as are not, by the Law or by the articles of association, required to be exercised by the shareholders in general meeting, subject nevertheless to any provisions of the articles of association, of the Law and of any regulations (which are not in conflict with the articles of association or the provisions of the Law) as may be prescribed by the Company in general meeting; but no regulation made by the Company in general meeting shall invalidate any prior act of the directors which would have been valid if that regulation had not been made.

Meetings of Shareholders

The first annual general meeting must be held within 18 months of incorporation and thereafter, not more than 15 months shall elapse between the date of one annual general meeting and the next.

The directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on requisition or, in default, they may be convened by such requisitionists as provided by Section 126 of the Law. If at any time there are not, within Cyprus, sufficient directors capable of forming a quorum, any director or any two shareholders may convene an extraordinary general meeting in the same manner or as approximately as possible as such meetings would be convened by the Directors.

The annual general meeting and a meeting called for the passing of a special resolution shall be called by at least twenty-one days' written notice. The Company's other meetings shall be called by fourteen days' written notice at least. In case of special business, the notice shall specify the general nature of that business. Provided that the meetings of the Company may be called by shorter notice and shall be deemed to have been duly called if it is so agreed:

1. in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
2. in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares.

A notice convening a general meeting must be sent to each of the shareholders, provided that the accidental failure to give notice of a meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice, shall invalidate the proceedings at that meeting to which such notice refers. All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands, every member present in person or by proxy shall have one vote, and on a poll, every member shall have one vote for each share of which he is the holder (which may be given personally or by proxy).

The quorum for a general meeting will consist of at least three shareholders, present in person or by proxy. If within half an hour from the time appointed for the meeting a quorum is not formed, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case, it shall stand adjourned on the same day the following week, at the same time and place or on such other day and at such other time and place as the directors may determine and specify and if at the adjourned meeting a quorum is not formed within half an hour from the time appointed for the meeting, one or more members present shall form a quorum.

Subject to the provisions of the Law, a resolution in writing which bears the signature or has been passed by letter, telex, facsimile or telegram by each shareholder, who has the right to receive notice of the holding of general meetings, attend and vote (or in the case of legal persons the signature of their authorised representatives), is valid and has the same legal effect as if the resolution had been passed at a meeting of the Company duly convened and held.

Cypriot Law

General

The principal legislation under which the shares have been created and under which the Company was formed and now operate is the Law. The liability of shareholders is limited. Under the Law, a shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

According to Cyprus law, whenever shares will be issued in exchange for a cash consideration, the shareholders have pre-emption rights in respect of such issuance of shares. These pre-emption rights may be disapplied by a resolution of the general meeting which is passed by a two thirds majority if less than half of all the votes are represented at the meeting and by an ordinary resolution if at least half of all the votes are represented at the meeting. The directors have an obligation to present to the relevant general meeting a written report which explains the reasons for the dissolution of the pre-emption rights and justifies the proposed allotment price of the shares.

As a company with its registered office in Cyprus whose securities represented by GDRs are proposed to be listed on a regulated market in the United Kingdom, any offer for such GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers (the "**City Code**") in respect of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law would apply to such an offer in relation to information to employees of the target company and company law matters, including the threshold for a mandatory bid. Pursuant to Article 5(1) of Directive 2004/25/EC of the Parliament and Council of the European Union dated 21 April 2004 on takeover bids (the "**Takeover Directive**"), all member states of the European Union are required to introduce legislation requiring any person who, together with those acting in concert with him, acquires "control" of a company having its registered office in that member state, to make a mandatory offer to all holders of securities of the company. Pursuant to the Takeover Directive, the percentage of voting rights conferring "control" is to be determined by the rules of the member state in which the company has its registered office. Currently applicable Cyprus law, the Public Takeover Bids Law (the "**Cyprus Takeover Law**") contains provisions relating to mandatory offers requiring any person who acquires shares in a company to which such law applies, which together with the shares already held by him and by persons acting in concert with him, carry 30% or more of such company's voting rights, to make a general offer for that company's entire issued share capital. The above thresholds would apply to a company whose shares are listed on the London Stock Exchange but it is unclear whether they would apply to the acquisition of GDRs.

The Cyprus Takeover Law contains provisions in respect of squeeze-out rights. The effect of these provisions is that, where a bidder makes a take-over bid for all the shares of another company, and the offer is accepted by the holders of 90% of the shares conferring voting rights and 90% of the total voting rights (the "**Squeeze Out Threshold**"), the bidder can, with the permission of the Cyprus Securities and Exchange Commission, require shareholders who have not accepted the offer to sell their shares to the bidder, upon the same terms, unless such persons can persuade the court not to permit the acquisition. If the bidder making the take-over bid acquires shares equal to at least the Squeeze Out Threshold, the shareholders which have not accepted the offer may, within three months of the expiration of the acceptance period of the public offer, require the bidder to acquire their shares and the bidder shall be bound to do so upon the same terms as in the offer.

There have been no public takeover bids by third parties for all or any part of the Company's equity share capital since its date of incorporation.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("**GDRs**") represented by this certificate are each issued in respect of one Ordinary Share of nominal value EUR 0.01 (the "**Shares**") in HMS Hydraulic Machines & Systems Group plc (the "**Company**") pursuant to and subject to an agreement to be dated on or about 10 February 2011, and made between the Company and The Bank of New York Mellon in its capacity as depositary (the "**Depositary**") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited, as Custodian to receive and hold on its behalf any relevant documentation respecting certain Shares (the "**Deposited Shares**") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares and the share certificates representing Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to BNY (Nominees) Limited, or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in the United Kingdom as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "*Summary of Provisions Relating to the Global Depositary Receipts While in Master Form*" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the relevant Master GDR.

References in these Conditions to the **Holder** of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "**Register**") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the Depositary in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1. Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

   (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Cyprus of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2. Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Cyprus of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement (*which is described in the following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement,

the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States (as defined in Regulation S under the Securities Act) and will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions—Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a QIB or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions—Transfer Restrictions".

1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a separate temporary Regulation S Master GDR and/or temporary Rule 144A Master GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Regulation S Master GDR and/or a Rule 144A Master GDR (by increasing the total number of GDRs evidenced by the relevant Regulation S Master GDR or Rule 144A Master GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Regulation S Master GDR or a Rule 144A Master GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property is to be delivered (the "**Pre-Releasee**") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty% of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems reasonably appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary may also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems reasonably appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8).

1.8 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 and in Schedule 4 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

2.1 The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a US Securities Exchange or quoted on a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of members of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws. The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Cypriot law or that such deposit would result in any violation of any applicable Cypriot laws or governmental or stock exchange regulations.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary shall register the transfer, additional issue or cancellation of GDRs on the Register as promptly as reasonably practicable. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Regulation S Master GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**Securities Act**").

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the

Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in US Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in US Dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby

the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Cypriot counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to

receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Cypriot and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Cyprus in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these

Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

11.3 The Depositary may at its discretion, where assistance is reasonably requested by the Company, assist the Company, at the Company's expense, to obtain any authorisation, consent, registration or permit, or to file any report to a governmental or administrative authority, required to be obtained or filed by the Company pursuant to this Condition, provided that the Depositary shall in no circumstances take any action pursuant to this Condition which is in conflict with market practice or is in a capacity other than its capacity as Depositary.

12. Voting Rights

12.1 Holders will have the right to instruct the Depositary with respect to the exercise of voting rights with respect to the Deposited Shares, subject to Clause 5 of the Deposit Agreement and Condition 12. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the members of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against, or abstain from voting on, each and any resolution specified in the agenda for the meeting, which the Depositary shall promptly send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Cypriot law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Cypriot law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Deposited Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be

deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Cypriot law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary is entitled to request the Company to provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Cypriot law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in such manner as the Depositary and the Company determine is required in order to comply with applicable Cypriot law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Cyprus or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any

other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable. The Depositary shall exercise reasonable care in the selection and retention of any agent.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person nor shall the Company have any responsibility whatsoever to any Holders, or any owner of GDRs or any other person (excluding, for the avoidance of doubt, the Depositary) as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may, having given prior written notice to the Company where reasonably practicable in respect of material delegation (in the opinion of the Depositary) delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company and further provided that the Depositary shall exercise reasonable care in selection of any delegate. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the

Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Cypriot law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

14.21 Nothing in this Agreement shall exclude any liability for loss or damage caused by fraud.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of US$0.05 or less per GDR;

(vii) a fee of US$0.02 or less per GDR (or portion thereof) per annum for depositary services which shall be payable as provided in paragraph (viii) below; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

(ix) together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, inter alia, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use commercially reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the "**Official List**") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use commercially reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment,

become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange. The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use commercially reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action,

except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List and admitted to trading on the London Stock Exchange and the rules of the Financial Services Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the

Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) by electronic transmission of:

(i) in respect of the financial year ending on 31 December 2007 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with International Financial Reporting Standards, as adopted for use in the European Union and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;

(ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same arepublished and in any event no later than three months after the end of the period to which they relate; and

(iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Cypriot law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the non-exclusive jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have non-exclusive jurisdiction to settle any disputes (each a Dispute) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York Mellon, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule 144A Master GDR in registered form. The Rule 144A Master GDR will be registered in the name of Cede & Co. as nominee for DTC, and will be held by The Bank of New York Mellon in New York as custodian for DTC. The Regulation S Master GDR will be deposited with The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream and registered in the name of The Bank of New York Depository (Nominees) Limited.

The Master GDRs contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs set forth under "*Terms and Conditions of the Global Depositary Receipts*". The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the "*Terms and Conditions of the Global Depositary Receipts*" shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- DTC, or any successor to DTC, in the case of the Rule 144A Master GDR, or Euroclear or Clearstream, or any successor to them, in the case of the Regulation S Master GDR, notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;
- either DTC in the case of Rule 144A Master GDR, or Euroclear or Clearstream in the case of the Regulation S Master GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days;
- in respect of the Rule 144A Master GDR, DTC or any successor ceases to be a "clearing agency" registered under the US Securities Exchange Act of 1934, as amended; or
- the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the Company's expense, including printing costs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC. Pursuant to the conditions set forth under "*Terms and Conditions of the Global Depositary Receipts*", upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Rule 144A Master GDR and the Regulation S Master GDR, or any distribution of GDRs or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that, if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the Company's obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Regulation S Master GDR, be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Rule 144A Master GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of the relevant funds from the Company. Any free distribution or rights issue of Ordinary Shares to the Depositary on behalf of the

Holders will result in the records maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders will have voting rights as set forth under "*Terms and Conditions of the Global Depositary Receipts*".

Surrender of GDRs

Any requirement in the "*Terms and Conditions of the Global Depositary Receipts*" relating to the surrender of a GDR represented by the Regulation S Master GDR to the Depositary shall be satisfied by the production by Euroclear and Clearstream, and relating to the surrender of a GDR represented by the Master Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Regulation S Master GDR is registered in the name of the common depositary (or its nominee) for Euroclear and Clearstream, and the Rule 144A Master GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream with respect to the Regulation S Master GDR, and to DTC with respect to the Rule 144A Master GDR, for communication to persons entitled thereto in substitution for delivery of notices in accordance with their terms except that so long as the GDRs are listed on the Official List maintained by the Financial Services Authority and admitted for trading on the London Stock Exchange and the Financial Services Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

The Master GDRs are governed by and must be construed in accordance with English law.

TAXATION

The following summary of material Cyprus, US federal income, Russian and United Kingdom tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Cyprus Tax Considerations

A company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised in Cyprus. An individual is considered to be a resident of Cyprus for tax purposes in a calendar year if they are physically present in Cyprus for a period or periods exceeding in aggregate more than 183 days in that calendar year. Where a company or individual is considered tax resident in Cyprus as well as tax resident in another country, if a double tax treaty is in force between Cyprus and that other country, the provisions of that treaty would apply to deem the company or individual a tax resident of only Cyprus or the other country.

A tax resident of Cyprus (individual or company) is subject to Cypriot income tax on their worldwide income subject to certain exemptions.

A person (individual or company) who is not a tax resident of Cyprus is subject to tax on certain classes of Cyprus sourced income, including profits from a permanent establishment located in Cyprus.

Rates of income tax

The rate of Corporate Income Tax in Cyprus is 10%.

The rates of Income Tax applicable to individuals are as follows:

Taxable income (Euros)	Tax rate
0-19,500	0%
19,501-28,000	20%
28,001-36,300	25%
36,301 and over	30%

Defence Tax

Defence Tax is levied on certain types of gross income received by Cyprus tax residents without any deduction for expenses.

Persons who are not tax residents of Cyprus are not subject to Defence Tax.

In respect of Cyprus tax residents, Defence Tax applies at the rate of 3% on 75% of their rental income, and at the rate of 10% on their interest income not arising from (or closely related to) the ordinary course of the business.

In addition, Defence Tax at the rate of 15% applies to dividend income received by a Cyprus tax resident company from companies which are not tax residents of Cyprus if certain conditions are met. Cyprus tax resident individuals are always subject to 15% Defence Tax on dividend income regardless of whether the dividend is paid by a resident or non-resident company.

Capital Gains Tax

Capital Gains Tax is levied in Cyprus at a rate of 20% on profits from the disposal of immovable property situated in Cyprus, or shares of companies which own immovable property situated in Cyprus (unless the

shares are listed on a recognised stock exchange) to the extent that such profits relate to the value of such immovable property.

Taxation of income and gains of the GDR holders

Profits and gains from disposal of GDRs by the GDR holders

A profit realised on the sale of GDRs by a non resident holder shall not be subject to income tax in Cyprus.

A profit realised on the sale of GDRs by a resident holder shall be exempt from tax in Cyprus as, according to an internal Circular published by the Cyprus tax authorities, GDRs are considered to fall within definition of securities for Cypriot tax purposes on which gains on disposal are exempt from tax.

A gain made on disposal of the GDRs may be subject to Capital Gains Tax if at the time of disposal of the GDRs by the GDR holders the GDRs are not listed on a recognised Stock Exchange and the Company holds immovable property located within Cyprus.

Dividends to be received by the GDR holders

Dividends to be received from the Company by non resident GDR holders and corporate resident GDR holders (subject to the deemed distribution rules) shall not be subject to tax in Cyprus, whether by way of withholding or otherwise.

Dividends to be received from the Company by resident individual GDR holders shall be subject to Defence Tax at the rate of 15%.

Deemed distribution rules

Defence Tax at a rate of 15% would be payable by the Company on deemed dividend distributions to the extent that its shareholders are Cypriot tax residents. A Cypriot tax resident company which does not distribute 70% of its after-tax profits within two years of the end of the year in which the profits arose, is deemed to have distributed this amount as a dividend two years after that year end. The amount of this deemed dividend distribution (subject to Defence Tax) is reduced by any actual dividend paid out of the profits of the relevant year at any time up to the date of the deemed distribution and the resulting balance of profit will be subject to Defence Tax of 15% to the extent of the proportion of shares held in the company at that time by Cyprus tax residents. The profits to be taken into account in determining the deemed dividend do not include fair value adjustments to movable or immovable property (if any).

The Defence Tax payable as a result of a deemed dividend distribution is paid in the first instance by the company which may recover such payment from its Cypriot shareholders by deducting the amount from an actual dividend paid to such shareholders from the relevant profits.

In the case where a person who is not tax resident in Cyprus received a dividend from a Cypriot tax resident company and that dividend is paid out of profits which at any stage gave rise to a liability to Defence Tax in accordance with the deemed distribution provisions described above, then the Defence Tax paid in respect of that deemed distribution which relates to the dividends received by such person is refundable upon application to the Cypriot tax authorities by the recipient of the dividend.

Stamp duty

Cyprus levies stamp duty on every instrument executed if it relates to any:

- property situated in Cyprus; or
- matter or thing which is performed or done in Cyprus.

There are instruments which are subject to stamp duty in Cyprus at a fixed fee (ranging from three cents to EUR 34) and instruments which are subject to stamp duty based on the value of the instrument (0.15% for sums up to EUR 170,860 and 0.2% for sums exceeding EUR 170,860. There is a maximum (capped) stamp duty of EUR 17,086 per agreement/contract.

A liability to stamp duty may arise on acquisition of GDRs and such stamp duty would be payable where the GDR acquisition documents are executed in Cyprus or later brought into Cyprus as the Company's shares that underlie the GDRs may be considered to be Cypriot property.

Gift and inheritance tax

Cyprus does not impose any gift or inheritance taxes.

Taxation of income and gains of the Company

The rate of Corporate Income Tax in Cyprus is 10% Certain types of income such as profit on disposal of securities (as defined in the Income Tax Law) and dividends are exempt from Corporate Income Tax.

Gains from the disposal of securities

Any gain from disposal of securities by the Company shall be exempt from Corporate Income Tax irrespective of the nature of the gain, the number of shares held or the holding period and shall not be subject to Defence Tax. Such gains are also outside of the scope of Capital Gains Tax provided that the company whose shares are disposed of does not own any immovable property situated in Cyprus.

The definition of securities includes shares and bonds of companies or legal persons wherever incorporated and options or other instruments thereon. An internal Circular published by the Cypriot tax authorities has clarified that the tax authorities accept that GDRs fall within the definition of securities.

The Cyprus-Russia double tax treaty (the "**Tax Treaty**") currently grants Cyprus the exclusive right of taxing capital gains realised on disposal of securities by a Cypriot resident entity, which form part of a Russian permanent establishment (a "**PE**"). The Protocol to the Treaty ("**the Protocol**"), which was signed in October 2010 and which will enter into force on 1 January following the year in which both Russia and Cyprus complete their ratification procedures, introduces amendments to this provision of the Tax Treaty such that gains derived by a Cyprus tax resident from the disposal of shares not listed on a registered stock exchange deriving more than 50% of their value from immovable property located in Russia will be subject to Russian taxation. The earliest possible date of entry into effect of this amendment is 1 January 2015.

Dividends to be received by the Company

Under the Tax Treaty, provided that the Company receiving the dividend income does not operate through a PE in Russia, the rate of Russian withholding tax on dividends cannot exceed 10%. This rate is reduced to 5% if the Company has directly invested in the capital of a Russian tax resident company not less than the equivalent of US$ 100,000. Once the Protocol comes into effect, the applicable amount will be Euro 100,000.

Dividend income (whether received from Cypriot resident or non-resident companies) is exempt from Corporate Income Tax in Cyprus. Dividend income from Cypriot resident companies is exempt from Defence Tax. Dividend income received from non-Cypriot resident companies is exempt from Defence Tax unless more than 50% of the paying company's activities result directly or indirectly in investment income and the foreign tax burden of the company paying the dividend is substantially lower than the tax burden of the company in Cyprus receiving the dividend (in practice "foreign tax burden being significantly lower" is interpreted to mean an effective tax rate of less than 5%). If the exemption for Defence Tax does not apply, dividends receivable from non-Cypriot resident companies are taxed at a rate of 15% Russian withholding tax on dividends assessed at source as well as the Russian underlying tax (i.e. corporate profit tax of the Russian subsidiary which is paying the dividends) can be credited against any such Defence Tax payable in Cyprus provided that proper documentation can be provided to the Cyprus tax authorities evidencing the foreign tax withheld at source and the profit tax suffered in Russia by the company paying the dividend. There is no assurance that such credit will be available without producing full original documentary evidence of payment.

Interest income

Any interest accruing to the Company which is considered to arise in the ordinary course of the business or is considered closely connected thereto qualifies as business income and shall be subject to Corporate Income Tax in Cyprus at a rate of 10% Such interest income shall be exempt from Defence Tax.

Specifically, provided that the provision of loans is one of the main activities of the company, interest income arising from the provision of loans to related or associated parties should be generally considered income arising from activities closely connected with the ordinary carrying on of a business and should as such be exempt from Defence Tax but be subject to Corporate Income Tax.

Interest income not arising in the ordinary course of a business and not being considered closely connected thereto shall be exempt from Corporate Income Tax but the gross amount of such interest shall be subject to Defence Tax at a rate of 10%.

Double Tax Relief

Relief against Cypriot Corporate Income Tax and Defence Tax for withholding taxes suffered on income derived by the Company from outside Cyprus is provided in the form of a tax credit against the same income subjected to tax in Cyprus. Such relief is given unilaterally, irrespective of the existence of a double tax treaty, and cannot exceed the Cypriot tax that would have been payable on the same income.

Withholding taxes on interest

No withholding taxes shall apply in Cyprus with respect to payment of interest by the Company to non-resident lenders.

There is no withholding tax in Cyprus on interest income paid by the Company to Cypriot tax resident corporate lenders, unless the resident lender receiving the interest is not considered to have generated this interest in the course of its ordinary activities or in connection with activities closely connected to the ordinary carrying on of its business.

Any payment of interest by the Company to Cypriot tax resident individual lenders shall be subject to Defence Tax by way of withholding at a rate of 10%.

Capital duty

Capital duty in the form of registration fees is payable to the Registrar of Companies in respect of the registered authorised share capital of the Company upon its incorporation and upon subsequent increases of the authorised share capital of the Company. The capital duty for increases of the registered authorised share capital is 0.6% on the nominal value of additional registered authorised share capital.

No capital duty is payable other than an increase of the nominal value of authorized shared capital. A flat registration fee of EUR 17.09 also applies on all subsequent issues of shares, whether at their nominal value or a premium.

Stamp duty

The Company may be liable to stamp duty on the execution of stampable documents (such as contracts, agreements, instruments etc.) in relation to any:

- property situated in Cyprus; or
- any matter or thing which is performed or done in Cyprus.

There are instruments which are subject to stamp duty in Cyprus at a fixed fee (ranging from three cents to EUR 34) and instruments which are subject to stamp duty based on the value of the instrument (0.15% for sums up to EUR 170,860 and 0.2% for sums exceeding EUR 170,860. There is a maximum (capped) stamp duty of EUR 17,086 per agreement/contract/instrument/document.

United States Federal Income Tax Considerations

TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, TAXPAYERS ARE HEREBY NOTIFIED THAT: (A) THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE INTERNAL REVENUE CODE; (B) THIS PROSPECTUS IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the GDRs. This summary applies only to U.S. Holders that acquire GDRs in the Offering, hold GDRs as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this Prospectus and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the

date of this Prospectus, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. This summary does not address any estate or gift tax consequences or any state, local, or foreign tax consequences.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- regulated investment companies;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- U.S. expatriates;
- persons holding the GDRs as part of a straddle, hedging, constructive sale, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of the Company's voting stock;
- persons that are resident or ordinarily resident in or have a permanent establishment in a jurisdiction outside the U.S.;
- persons who acquired the GDRs pursuant to the exercise of any employee share option or otherwise as compensation; or
- persons holding the GDRs through partnerships or other pass-through entities.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE GDRS.

The discussion below of the U.S. federal income tax consequences to "U.S. Holders" applies to a holder that is a beneficial owner of the GDRs and is, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) organised under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The tax treatment of a partner in a partnership or other entity taxable as a partnership for U.S. federal income tax purposes that holds the GDRs generally will depend on such partner's status and the activities of the partnership.

Generally, holders of GDRs should be treated for U.S. federal income tax purposes as holding the Ordinary Shares represented by the GDRs. Accordingly, no gain or loss will be recognised upon an exchange of Ordinary Shares for GDRs or an exchange of GDRs for Ordinary Shares. The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of a GDR and the issuer of the security underlying the GDR may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. Holders of GDRs. Accordingly, the creditabilities of foreign taxes, if any, as described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of a GDR and the Company.

Dividends

Subject to the passive foreign investment company rules discussed below, the gross amount of distributions made by the Company with respect to the GDRs (including the amount of taxes withheld therefrom, if any) generally will be includable in a U.S. Holder's gross income as dividend income on the date of receipt by the Depositary, but only to the extent that such distributions are paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. The Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, and, accordingly, a U.S. Holder should therefore expect to treat all cash distributions as dividends for such purposes. The dividends will generally be foreign source and taxes withheld therefrom, if any, may be creditable against the U.S. Holder's U.S. federal income tax liability subject to applicable limitations. The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. Subject to applicable limitations, dividends paid by qualified foreign corporations to certain non-corporate U.S. Holders are currently subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. However, the Company does not expect to be a qualified foreign corporation, and therefore dividends paid on the GDRs are not expected to be subject to taxation at these reduced rates. U.S. Holders should consult their own tax advisors regarding the availability of the lower rate for dividends paid with respect to the GDRs.

The amount of any distribution paid in foreign currency will be equal to the U.S. dollar value of such currency on the date such distribution is includible in income by the recipient, regardless of whether the payment is in fact converted into U.S. dollars at that time. Any gain or loss on a subsequent conversion or other disposition of the currency for a different U.S. dollar amount will be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Sale or Other Disposition of the GDRs

Subject to the passive foreign investment company rules discussed below, upon a sale or other disposition of the GDRs, a U.S. Holder will recognise a capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realised (which shall include the amount of taxes withheld therefrom, if any) and its tax basis in such GDRs. Any such gain or loss generally will be U.S. source gain or loss and will be treated as long-term capital gain or loss if the U.S. Holder's holding period in the GDRs exceeds one year. Non-corporate U.S. Holders (including individuals) generally will be subject to U.S. federal income tax on long-term capital gain at preferential rates. The deductibility of capital losses is subject to significant limitations.

If the consideration received for the GDRs is paid in foreign currency, the amount realised will be the U.S. dollar value of the payment received. A U.S. Holder may realise additional gain or loss upon the subsequent sale or disposition of such currency, which will generally be treated as U.S. source ordinary income or loss. If the GDRs are treated as traded on an established securities market and the relevant holder is either a cash basis taxpayer or an accrual basis taxpayer who has made a special election (which must be applied consistently from year to year and cannot be changed without the consent of the Internal Revenue Service), such holder will determine the U.S. dollar value of the amount realised in a foreign currency by translating the amount received at the spot rate of exchange on the settlement date of the sale. If a U.S. Holder is an accrual basis taxpayer that is not eligible to or does not elect to determine the amount realised using the spot rate on the settlement date, it will recognise foreign currency gain or loss to the extent of any difference between the U.S. Dollar amount realised on the date of disposition and the U.S. Dollar value of the currency received at the spot rate on the settlement date. A U.S. Holder's initial tax basis in the GDRs generally will equal the cost of such GDRs. If a U.S. Holder used foreign currency to purchase the GDRs, the cost of the GDRs will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. If the GDRs are treated as traded on an established securities market and the relevant U.S. Holder is either a cash basis taxpayer or an accrual basis taxpayer who has made the special election described above, such holder will determine the U.S. dollar value of the cost of such GDRs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

Passive Foreign Investment Company

The Company does not anticipate that it will be a passive foreign investment company (a "PFIC") for the current taxable year or for future taxable years. This is a factual determination, however, that must be

made annually at the end of the taxable year. Therefore there can be no assurance that the Company will not be classified as a PFIC for the current taxable year or for any future taxable year.

The Company would be classified as a PFIC for any taxable year if either: (a) at least 75% of its gross income is passive income, or (b) at least 50% of the value of its assets (determined on the basis of a quarterly average) produce or are held for the production of passive income. For this purpose, the Company will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, more than 25% (by value) of the stock. Under the PFIC rules, if the Company were considered a PFIC at any time during which a U.S. Holder held the GDRs, the Company would continue to be treated as a PFIC with respect to such holder's investment unless the holder has made certain elections under the PFIC rules.

If the Company is classified as a PFIC for any taxable year during which a U.S. Holder held the GDRs, such holder may be subject to materially adverse U.S. federal income tax consequences, including being subject to greater amounts of U.S. tax and being subject to additional U.S. tax form filing requirements. U.S. Holders should consult their own tax advisors regarding the potential application of the PFIC rules to their ownership of the GDRs.

U.S. Information Reporting and Backup Withholding

Dividend payments with respect to the GDRs and proceeds from the sale, exchange or redemption of the GDRs may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status may be required to provide such certification on Internal Revenue Service Form W-9. In addition, for taxable years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals to report information relating to an interest in the GDRs, subject to certain exceptions (including an exception for GDRs held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and such holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO YOU. EACH PROSPECTIVE PURCHASER SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

Russian Tax Considerations

The following is a summary based on the laws of Russia in effect on the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of Russia. The summary also does not seek to address the availability of double tax treaty relief; and even where such relief is available there may be practical difficulties involved in claiming relief under an applicable double tax treaty.

Prospective investors should consult their own advisers regarding the tax consequences of investing in GDRs, and no representation with respect to the Russian tax consequences to any particular holder is made hereby. No representation with respect to Russian tax consequences to any particular holders is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments as well as the relative practice of Russian authorities may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In this regard, the interpretation and application of such provisions in practice will rest substantially with local tax inspectorates. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may constitute the imposition of conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a "Tax Agent" means:

- a legal person organised under Russian law; or
- a legal person or organisation, in either case, organised under a foreign law and carrying on activities through a permanent establishment in Russia or, arguably, having any other registered presence in Russia;

who are charged as described below with obligations associated with calculation, withholding from a taxpayer income and transfer to the revenue of taxes.

Taxation of Dividends paid by the Russian subsidiaries to the Company

In general, the responsibility to determine the obligation to withhold the tax from the payment and to pay it to the state budget rests with the Russian company or the Russian permanent establishment of the foreign legal entity that actually pays the income to the foreign counterparty. Dividends paid to the Company will generally be subject to Russian withholding income tax, which will be withheld by the Tax Agent. The applicable tax rate on dividends will be 15%.

Russian withholding income tax on dividends may be reduced under the terms of a double tax treaty between Russia and Cyprus subject to tax treaty clearance requirements being met. In accordance with the provisions of the Tax Treaty dividends paid from Russia to Cyprus are taxed at 5% or 10% depending on the amount of participation in the entity, which pays dividends:

- 5%, if the recipient has directly invested (i.e. has contributed monetary funds to the charter capital or has acquired shares/ participatory units) an equivalent of not less than USD 100,000 into the equity of the company paying the dividends. The Protocol to the treaty which has yet to become effective provides for a change in this threshold to EUR 100,000.
- 10%—in other cases.

Currently the Company would need to provide the payer of income (the "**Tax Agent**") with an original or a notarised copy of the certificate of tax residence issued by the competent tax authority of Cyprus. This certificate should be apostilled or legalised by a respective competent authority. A notarised Russian translation of the certificate would be required. The tax residency confirmation needs to be renewed on an annual basis, and provided to the Tax Agent before the first payment of income in each calendar year. Please note that if the tax is withheld due to the lack of the tax residency confirmation, the foreign company is entitled to claim a refund from the Russian tax authorities. However, in practice it is very burdensome and time consuming to obtain a tax refund.

It is likely that the requirement to provide confirmation of residence as referred to in the preceding paragraph relates to beneficial owner of the dividend income. This requirement in practice increases the risk of the application of a Russian withholding tax if the Company is not considered a beneficial owner. Please also refer to "*Risks Related to the Company and Industry—Risks Relating to Taxation in Russia—The Company may be subject to increased effective rates of tax on dividends due to lack of clarity of Russian tax law in respect to beneficial ownership*".

United Kingdom Tax Considerations

*The following is a general summary of certain UK tax considerations relating to the ownership and disposal of the GDRs. It is based on current UK tax law and published HM Revenue & Customs ("**HMRC**") practice as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect.*

This summary is for general information only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular investor. It does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under UK tax law. In particular:

this summary applies only to persons who are (a) resident (and, in the case of individuals, ordinarily resident and domiciled) in the United Kingdom for tax purposes and who are not resident for tax purposes in any other jurisdiction and do not have a permanent establishment, branch, agency or other fixed base in any other jurisdiction with which the holding of GDRs is connected, and (b) the absolute beneficial owners of the GDRs and any dividends paid in respect of the underlying Ordinary Shares and where the dividends are regarded for UK tax purposes as that person's own income (and not the income of some other person) ("**UK Holders**").

this summary: (a) only addresses the principal UK tax consequences for UK Holders who hold GDRs as capital assets, (b) does not address the tax consequences which may be relevant to certain special classes of UK Holders such as dealers, brokers or traders in shares or securities and other persons who hold GDRs otherwise than as an investment, and (c) does not address the tax consequences for UK Holders that are financial institutions, insurance companies, collective investment schemes, pension schemes, charities or tax-exempt organisations.

this summary assumes that (a) the UK Holder is not an officer or employee of the Company (or of any related company) and has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment, (b) the UK Holder does not control or hold (and is not deemed to control or hold), either alone or together with one or more associated or connected persons, directly or indirectly (including through the holding of the GDRs), an interest of 10% or more in the Ordinary Shares, voting power, rights to profits or capital of the Company, and is not otherwise connected with the Company and (c) neither the GDRs nor the Underlying Shares will be paired with shares issued by a company incorporated in the UK.

this summary further assumes that a holder of GDRs is, for UK tax purposes, absolutely beneficially entitled to the underlying Ordinary Shares and to the dividends on those Ordinary Shares.

POTENTIAL INVESTORS IN THE GDRS SHOULD SATISFY THEMSELVES PRIOR TO INVESTING AS TO THE OVERALL TAX CONSEQUENCES, INCLUDING, SPECIFICALLY, THE CONSEQUENCES UNDER UK TAX LAW AND HMRC PRACTICE OF THE ACQUISITION, OWNERSHIP AND DISPOSAL OF THE GDRS, IN THEIR OWN PARTICULAR CIRCUMSTANCES, AS WELL AS THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE BY CONSULTING THEIR OWN TAX ADVISERS.

Taxation of dividends

Withholding Tax

Dividend payments in respect of the GDRs may be made without withholding or deduction for or on account of UK tax.

Income Tax

Dividends received by individual UK Holders will be subject to UK income tax on the full amount of the dividend paid, as grossed up to account for the amount of any UK dividend tax credit applicable to that individual UK Holder (referred to below).

Individual UK Holders will generally be entitled to a non-payable tax credit equal to one-ninth of the full amount of the dividend paid by the Company. The tax credit will be credited against the UK Holder's liability (if any) to UK income tax on the grossed up amount of the dividend. In the 2010/2011 tax year, the applicable rate of UK income tax, which is chargeable on an individual UK Holder's grossed up dividends received in that tax year from the Company is (i) 42.5% in the case of additional rate taxpayers, (ii) 32.5% in the case of higher rate taxpayers, and (iii) 10% in the case of basic rate taxpayers. An individual's dividend income is treated as the top slice of their total income which is chargeable to UK income tax. After taking into account the tax credit, the effective rate of tax will be (i) approximately 36% of the dividend paid for additional rate taxpayers, (ii) 25% of the dividend paid for higher rate taxpayers, and (iii) nil for basic rate taxpayers. An individual UK Holder who is not subject to UK income tax on the dividends received from the Company will generally not be entitled to claim payment of the tax credit in respect of such dividends.

Corporation Tax

A UK Holder within the charge to UK corporation tax should generally be entitled to exemption from UK corporation tax in respect of dividend payments made by the Company. However, if the conditions for exemption are not satisfied, or a UK Holder elects for an otherwise exempt dividend to be taxable, UK corporation tax will be chargeable on the amount of any such dividends. If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Provision of information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person, may, in certain circumstances, be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the "foreign dividend", and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in accordance with guidance published by HMRC applicable for the 2010/2011 tax year, dividend payments in respect of the GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of disposals

A disposal or deemed disposal of GDRs by an individual UK Holder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purposes of UK capital gains tax. If, after all allowable reliefs and deductions, an individual UK Holder's taxable income for the relevant year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal or deemed disposal of GDRs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal or deemed disposal of GDRs may be taxed at 18% or 28%, or at a combination of both rates.

An individual UK Holder who ceases to be resident or ordinarily resident in the United Kingdom for a period of less than five years and who disposes of his or her GDRs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions or reliefs).

A disposal of GDRs by a corporate UK Holder may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax. Such a UK Holder may be entitled to an indexation allowance, which applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

Any gains or losses in respect of currency fluctuations relating to the GDRs would be brought into account on the disposal.

Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax will be payable on the issue of the GDRs or their delivery into Euroclear and Clearstream.

No UK stamp duty or stamp duty reserve tax will be payable on any transfer of the GDRs once they are issued into Euroclear and Clearstream, where such transfer is effected only in electronic book entry form in accordance with the procedures of Euroclear or Clearstream (as applicable).

Inheritance tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, GDRs where the owner is an individual who is domiciled or is deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit.

SUBSCRIPTION AND SALE

The Offering consists of an international offering of GDRs. The Offering comprises (i) an offering of Rule 144A GDRs to certain QIBs as defined in, and in reliance on, Rule 144A under the Securities Act, or another exemption from, or transaction not subject to, registration under the Securities Act, and (ii) an offering of Regulation S GDRs outside the United States in reliance on Regulation S under the Securities Act and outside Russia.

The Company and the Selling Shareholders have entered into an underwriting agreement with the Joint Bookrunners dated 8 February 2011 (the "**Underwriting Agreement**") with respect to the GDRs being offered in the Offering. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each of the Joint Bookrunners has agreed, severally but not jointly, to purchase such number of Ordinary Shares in the form of GDRs as are set forth opposite its name in the following table:

Joint Bookrunner	Number of GDRs
J.P. Morgan Securities Ltd.	16,626,839
Morgan Stanley & Co. International plc	10,386,322
Renaissance Securities (Cyprus) Limited	16,626,839
Total	**43,640,000**

Application has been made to the FSA in its capacity as competent authority under the FSMA for the admission of up to 200,000,000 GDRs, consisting of 43,640,000 GDRs to be issued on the Closing Date, up to 4,364,000 additional GDRs to be issued pursuant the Over-Allotment Option, and up to 151,996,000 GDRs to be issued from time to time against the deposit of Ordinary Shares with the Depositary, to the official list maintained by the FSA and to the regulated market of the London Stock Exchange for admission of the GDRs to trading under the symbol "HMSG". The Company expects that conditional trading in the GDRs through the IOB will commence on a "when and if issued" basis on or about 9 February 2011, and unconditional trading through the IOB will commence on or about the Closing Date. Admission is expected to take place on or about 14 February 2011. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The GDRs will be initially represented by a new Master Rule 144A GDR and a new Master Regulation S GDR and will be subject to certain restrictions as further discussed in "*Terms and Conditions of the Global Depositary Receipts*" and "*Selling and Transfer Restrictions*".

The Joint Bookrunners may also sell GDRs in excess of their Over-allotment Option up to a maximum of 5% of the size of the offering, creating a naked short position. The Joint Bookrunners must close out any naked short position by purchasing GDRs in the open market.

The offer price is US$8.25 per GDR. The Joint Bookrunners will receive total fees and commissions of approximately US$8.6 million. In addition, at the sole discretion of the Company, the Joint Bookrunners may be entitled to an additional incentive fee of approximately US$3.6 million.

The Company has also agreed to reimburse the Joint Bookrunners for certain of their expenses in connection with the Offering. Including these amounts, the Company's estimated expenses in relation to the Offering, other than fees and commissions of the Joint Bookrunners, are approximately US$4.2 million.

In the Underwriting Agreement among the Company, the Joint Bookrunners and the Selling Shareholders, the Company and the Selling Shareholders have made certain customary representations and warranties. The Company and the Selling Shareholders have also agreed to provide indemnification to the Joint Bookrunners against certain liabilities, including liability under the Securities Act.

The Joint Bookrunners are offering the GDRs when, as and if delivered to and accepted by them, subject to their approval of certain legal matters, including the validity of the Ordinary Shares and other conditions contained in the Underwriting Agreement, such as the receipt by the Joint Bookrunners of officers' certificates, comfort letters and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the London Stock Exchange or certain other stock exchanges or a material adverse change in the Group's financial condition or business, and on certain other conditions, the Joint Bookrunners have the right, collectively but not individually, to withdraw from the Offering before delivery of GDRs and to terminate the Underwriting Agreement.

Lock-up Arrangements

The Company, the Selling Shareholders and certain beneficial owners have agreed not to issue, offer, sell, contract to sell, pledge, dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or GDRs or any shares of the Company or securities convertible or exchangeable into or exercisable for shares of the Company or warranty or other rights to purchase shares of the Company or any securities or financial product whose value is determined directly or indirectly by reference to the price of the Ordinary Shares, including equity swaps. forward sales and options from the date hereof until 180 days after the Closing Date without the prior written consent of the Joint Bookrunners, except in limited circumstances. The foregoing undertaking shall not apply to the offer and sale of the GDRs in connection with the Offering.

Other Relationships

The Joint Bookrunners and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Group and/or the Selling Shareholders and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for the Group and the Selling Shareholders and their respective affiliates in the future.

SELLING AND TRANSFER RESTRICTIONS

Transfer Restrictions

Rule 144A GDRs

Each purchaser of the Rule 144A GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Rule 144A GDRs has been advised that, the sale to it is being made in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB, and (iv) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
- The purchaser is aware that the Rule 144A GDRs have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the Rule 144A GDRs represented thereby are subject to significant restrictions on transfer.
- If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs, such Rule 144A GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC REPRESENTED HEREBY ("THE SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC THAT THE GDRs AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRS WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRS OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

- Prospective purchasers are hereby notified that sellers of the Rule 144A GDRs or Rule 144A Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S GDRs

Each purchaser of Regulation S GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- The purchaser (i) at the time of the offer to it of Regulation S GDRs and at the time the order originated is outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate, and (iii) is not in the business of buying or selling securities or, if it is in such business, it did not acquire the Regulation S GDRs from the Company or an affiliate thereof in the initial distribution of Regulation S GDRs.
- The purchaser is aware that the Regulation S GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.
- The purchaser will not offer, resell, pledge or otherwise transfer such Regulation S GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state or other jurisdiction of the United States.
- If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Regulation S GDRs, such Regulation S GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Regulation S GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (THE "**COMPANY**") REPRESENTED HEREBY (THE "**SHARES**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

Selling Restrictions

The distribution of this Prospectus and the offer of the GDRs in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer of the GDRs, including those in the paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The Ordinary Shares and the GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Underwriting Agreement provides that the Joint Bookrunners may directly or through their respective

US broker-dealer affiliates arrange for the offer and resale of GDRs within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.

In addition, until 40 days after the commencement of this offering, an offer or sale of GDRs within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), an offer to the public of any GDRs which are the subject of the Offering may not be made in that Relevant Member State other than the offer of GDRs contemplated by this Prospectus in the United Kingdom after this Prospectus has been approved by the competent authority in that Relevant Member State and published in accordance with the Prospectus Directive as implemented in that Relevant Member State. Notwithstanding the foregoing, an offer to the public in that Relevant Member State of any GDRs may also be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal persons which are qualified investors as defined under the Prospectus Directive;
- by the Joint Bookrunners to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined under the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the Group, the Selling Shareholders, or the Joint Bookrunners to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer to the public**" in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for any GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

The Company, the Selling Shareholders and the Joint Bookrunners have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by them in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Group; and they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

Russia

Each Joint Bookrunner has represented and agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia who is not a qualified investor in accordance with Russian law unless and to the extent otherwise permitted under Russian law.

CLEARING AND SETTLEMENT

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and the cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions including underwriters, securities brokers and dealers, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "*Taxation—United States Federal Income Tax Considerations*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the Regulation S GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear,

Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream are credited to Euroclear or Clearstream as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable with respect to the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see "*Selling and Transfer Restrictions*".

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US Dollars, or free of payment, if payment is not effected in US Dollars. Where payment is not effected in US Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between Clearstream/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least two business days prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Joint Bookrunners, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL and will also be available at the offices of the Luxembourg Intermediary, The Bank of New York Mellon (Luxembourg) S.A., located at Vertigo Building–Polaris, 2-4, rue Eugene Ruppert, L-2453, Luxembourg.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company in respect of the laws of England and the United States by Latham & Watkins (London) LLP, in respect of the laws of Russia by Latham & Watkins LLP, in respect of Cypriot law by Antis Triantafyllides & Sons LLC and in respect of Ukrainian law by Vasil Kisil & Partners.

Certain legal matters in connection with the Offering will be passed upon for the Joint Bookrunners in respect of the laws of England, the United States and Russia by Cleary Gottlieb Steen & Hamilton LLP.

INDEPENDENT AUDITORS

The Annual Financial Statements have been audited by ZAO PricewaterhouseCoopers Audit ("**PwC Russia**"), independent auditors, as stated in their report (the "**Independent Auditors' Report**") appearing herein. In addition, the GTNG Annual Financial Statements have been audited by PwC Russia, as stated in their report (the "**Independent Auditors' Report on the GTNG Financial Information**") appearing herein. PwC Russia is a member of the Audit Chamber of Russia (*Auditorskaya Palata Rossii*).

With respect to the Interim Financial Statements and the GTNG Interim Financial Statements, PwC Russia reported that it has applied limited procedures in accordance with professional standards for a review of such information. However, PwC Russia's separate reports on the Interim Financial Statements dated 4 January 2011 and the GTNG Interim Financial Statements dated 30 December 2010 (the "**Independent Review Reports**") appearing herein state that it did not audit and does not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on the Independent Review Reports should be restricted in light of the limited nature of the review procedures applied.

PwC Russia has given and not withdrawn its written consent to the inclusion of the Independent Auditors' Report and the Independent Auditors' Report on the GTNG Financial Information (together with the Independent Auditors' Report, the "**Independent Auditors' Reports**") and the Independent Review Reports in the form and context in which they are included and has authorised the contents of the Independent Auditors' Reports for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. PwC Russia accepts responsibility for the information contained in the Independent Auditors' Reports and Independent Review Reports and, to the best of PwC Russia's knowledge, having taken all reasonable care to ensure that such is the case, the information contained in the Independent Auditors' Reports and Independent Review Reports is in accordance with the facts and does not omit anything likely to affect its import.

A written consent under the Prospectus Rules is different from a consent filed with the Securities and Exchange Commission under section 7 of the Securities Act. As the GDRs have not been and will not be registered under the Securities Act, PwC Russia has not filed a consent under section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act.

With respect to the Company Interim Financial Statements, PricewaterhouseCoopers Limited ("**PwC Cyprus**") reported that it has applied limited procedures in accordance with professional standards for a review of such information. However, the separate report of PwC Cyprus dated 4 January 2011 (the "**Independent Cyprus Review Report**") appearing herein states that it did not audit and does not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied.

PwC Cyprus has given and not withdrawn its written consent to the inclusion of the Independent Cyprus Review Report in the form and context in which the Independent Cyprus Review Report is included and has authorised the contents of the Independent Cyprus Review Report for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. PwC Cyprus accepts responsibility for the information contained in the Independent Cyprus Review Report and, to the best of PwC Cyprus' knowledge, having taken all reasonable care to ensure that such is the case, the information contained in the Independent Cyprus Review Report is in accordance with the facts and does not omit anything likely to affect its import.

A written consent under the Prospectus Rules is different from a consent filed with the Securities and Exchange Commission under section 7 of the Securities Act. As the GDRs have not been and will not be registered under the Securities Act, PwC Cyprus has not filed a consent under section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act.

ADDITIONAL INFORMATION

1. The issuance of the newly issued Ordinary Shares and the Company entering into the Underwriting Agreement and the Deposit Agreement were duly authorised by the Board of Directors on 17 January 2011 in accordance with the Company's constitutional documents. The board of directors of each Selling Shareholder duly approved and authorised the transfers and sale of the Ordinary Shares, and the relevant Selling Shareholder entering into the Underwriting Agreement.
2. It is expected that listing of the GDRs will take place on or about 14 February 2011, subject only to the issuance of the Master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 14 February 2011. Transactions will normally be effected for settlement in US Dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the Depositary.
3. There has been no significant change in the Group's financial or trading position since 30 September 2010, the end of the last financial period for which financial information has been published.
4. In the event that certificates in definitive form are issued in respect of the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.
5. Copies in English of the following documents may be inspected at the offices of the Company, during usual business hours on any weekday, excluding Saturday, Sunday and public holidays, for a period of one year from publication of the Prospectus:
   - the Company's articles and memorandum of association in effect upon completion of the Offering;
   - the Annual Financial Statements;
   - the Interim Financial Statements;
   - the Company Interim Financial Statements;
   - the GTNG Annual Financial Statements;
   - the GTNG Interim Financial Statements;
   - the Annual Pro Forma Statement of Comprehensive Income;
   - the Interim Pro Forma Statement of Comprehensive Income;
   - the Frost & Sullivan Report; and
   - the Deposit Agreement.
6. The Company prepares consolidated annual and interim financial statements in accordance with EU IFRS.
7. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Joint Bookrunners. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date of the Offering. The GDRs have no nominal or par value. The Offer Price was determined based on the results of the book building exercise conducted by the Joint Bookrunners.
8. The following table sets forth certain information in respect of the Group's material subsidiaries:

Material subsidiary	Country of incorporation	Ownership interest (voting rights held)[1]	Registered office
GTNG	Russia	Hydromashservice 51.0%	62, Respubliki st., Tyumen, Tyumen Region, 625000, Russia
HMS Group	Russia	OOO HMS-Holding 99.9999% Hydromashservice 0.0001%	7, Chayanova st., Moscow, 125047, Russia
HMS Household Pumps	Russia	Hydromashservice 86.0% (82.2%) HMS Group 10.5% (14.4%)	11, Zavodskaya st., Bavleny, Kolchuginsky district, Vladimir Region. 601775, Russia

Material subsidiary	Country of incorporation	Ownership interest (voting rights held)[1]	Registered office
HMS Pumps	Russia	HMS Group 97.6%	231, Mira st., Livny, Orlov Region, 303851, Russia
Hydromashservice	Russia	HMS Group 99.0% OOO Hydromashkomplekt 1.0%	31, bld. 32, Dolgorukovskaya st., Moscow, 127006, Russia
Livnynasos	Russia	Neftemash 21.0% HMS Pumps 67.02% Hydromashservice 12.0%	250, Orlovskaya st., Livny, Livnensky district, Orlov Region, 303850, Russia
Nasosenergomash	Ukraine	HMS Group 83.3%	1, Privokzalnaya sq., Sumy, 40011, Ukraine
Neftemash	Russia	HMS Group 84.9% Hydromashservice 15.06%	44, Voennaya st., Tyumen, Tyumen Region, 625003, Russia
NRS	Russia	Neftemash 100.0%	27, Aviatorov st., Nizhnevartovsk, Tyumen Region, 628606, Russia
OOO Business Centre Hydromash	Russia	Hydromashservice 0.01% OOO Hydromashkomplekt 99.9%	7, Chayanova st., Moscow, 125047, Russia
OOO HMS Group Management Company	Russia	Hydromashservice 4.7% Neftemash 1.9% HMS Pumps 4.7% Livnynasos 1.9% SKMN 9.1% NRS 1.1% Tomskgazstroy 20.0% OOO Business Centre Hydromash 56.6%	6A, bld.1, 3-ya Pryadilnaya st., Moscow, 105037, Russia
OOO HMS-Holding	Russia	HMS Hydraulic Machines & Systems Group plc 100.0%	6A, bld.1, 3-ya Pryadilnaya st., Moscow, 105037, Russia
OOO Hydromashkomplekt	Russia	HMS Group 100.0%	6A, bld.1, 3-ya Pryadilnaya st., Moscow, 105037, Russia
OOO LPKC	Russia	Livnynasos 33.3% HMS Pumps 66.7%	231, Mira st., Livny, Orlov Region, 303858, Russia
OOO Trade House Hydromashservice Ukraine	Ukraine	Hydromashservice 100.0%	1, Privokzalnaya sq., Sumy, 40011, Ukraine
Promburvod	Belarus	Hydromashservice 51.0%	29, Asanalieva st., Minsk, 220024, Belarus
RVKP	Russia	OOO Hydromashkomplekt 47.7% Hydromashservice 38.0%	16, 17, Soborny per., Rostov-na-Donu, Rostovskaya region, 344002, Russia
SKMN	Russia	Hydromashservice 67.3% GTNG 32.7%	12/3, Novatorov st., Tyumen, Tyumen Region, 625014, Russia
SibNa	Russia	Neftemash 95.4%	8, Novatorov st., Tyumen, Tyumen Region, 625014, Russia
SPA Gydromash	Russia	Nasosenergomash 99.5%	11, Skryabina, Sumy, 40020, Ukraine
Tomskgazstroy	Russia	Hydromashservice 76.1% (93.0%)	21, B. Podgornaya st., Tomsk, Tomsk Region, 634000, Russia
ZAO HMS-Promburvod	Belarus	Hydromashservice 51.0% ZAO HMS-Promburvod 49.0%	29, bld. 29, Asanalieva st., Minsk, 220024, Belarus
ZAO Hydromashinprom	Russia	SKMN 100.0%	1, 163, Mira Ave., Moscow, 129226, Russia

(1) Ownership interest identifies (i) each member of the Group holding shares or other ownership interests in the relevant material subsidiary, and (ii) the percentage of the material subsidiary's share capital which is held by such Group member as at 20 January 2011. Where the Group member also holds preference shares with voting rights, the total percentage of voting rights held is given in brackets; this percentage also represents the Group member's total ownership interest in the share capital of the material subsidiary.

(2) Hydromashservice owns 1 share of HMS Group.

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HMS Group OJSC

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31 December 2009

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of HMS Group OJSC:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company HMS Group (formerly operating as Investment and Industrial Group Hydraulic Machines and Systems LLC; the "Company") and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of 31 December 2009, 2008 and 2007 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, 2008 and 2007, and of its financial performance and its cash flows for each of the three years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

27 August 2010
Moscow, Russian Federation

HMS Group OJSC

Consolidated Statement of Financial Position
as of 31 December 2009, 2008, 2007

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2009	31 December 2008	31 December 2007
ASSETS				
Non-current assets:				
Property, plant and equipment	7	3,954,807	3,928,373	2,867,035
Other intangible assets	8	47,109	53,439	46,589
Goodwill	9	306,992	306,682	207,329
Investments in associates	11	507,293	449,848	416,860
Deferred income tax assets	26	53,989	41,000	57,711
Other long-term receivables	15	33,362	17,285	50,911
Total non-current assets		**4,903,552**	**4,796,627**	**3,646,435**
Current assets:				
Inventories	13	3,179,644	2,432,504	1,852,958
Trade and other receivables	14	2,875,755	3,027,888	3,869,094
Current income tax receivable		57,974	46,516	29,212
Prepaid expenses		35,104	26,422	23,024
Cash and cash equivalents	12	757,661	669,482	377,203
Restricted cash	12	905	620	890
Total current assets		**6,907,043**	**6,203,432**	**6,152,381**
TOTAL ASSETS		**11,810,595**	**11,000,059**	**9,798,816**

HMS Group OJSC

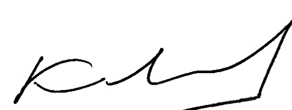
Consolidated Statement of Financial Position as of 31 December 2009, 2008, 2007 (Continued)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2009	31 December 2008	31 December 2007
EQUITY AND LIABILITIES				
EQUITY				
Share capital	24	591,180	591,180	—
Currency translation reserve		(168,051)	(122,942)	—
Retained earnings		1,308,801	1,635,995	—
Other reserves		(26,834)	(26,834)	—
Equity attributable to the Company's equity holders		**1,705,096**	**2,077,398**	**—**
Minority interest		**669,631**	**648,114**	**567,953**
TOTAL EQUITY		**2,374,727**	**2,725,512**	**567,953**
LIABILITIES				
Non-current liabilities				
Net assets attributable to the Company's participants:				
Paid-in capital	25	—	—	218,080
Cumulative surplus of net assets	25	—	—	1,538,482
Total net assets attributable to the Company's participants				**1,756,562**
Other non-current liabilities:				
Long-term borrowings	16	3,396,766	787	52,631
Finance lease liability	17	8,479	21,767	41,388
Deferred income tax liability	26	197,307	231,447	237,553
Pension liability	18	125,407	120,898	118,276
Long-term payables	20	—	—	14,938
Provisions for liabilities and charges	21	11,550	—	—
Total other non-current liabilities		**3,739,509**	**374,899**	**464,786**
Total non-curent liabilities		**3,739,509**	**374,899**	**2,221,348**
Current liabilities:				
Trade and other payable	23	3,255,490	3,238,859	3,748,655
Short-term borrowings	16	1,878,774	4,081,922	2,898,852
Provisions for liabilities and charges	21	209,746	199,336	122,254
Finance lease liability	17	13,094	19,776	22,816
Pension liability	18	20,922	17,242	11,676
Current income tax payable		25,069	22,419	23,593
Other taxes payable	22	293,264	320,094	181,669
Total current liabilities		**5,696,359**	**7,899,648**	**7,009,515**
TOTAL LIABILITIES		**9,435,868**	**8,274,547**	**9,230,863**
TOTAL EQUITY AND LIABILITIES		**11,810,595**	**11,000,059**	**9,798,816**

Approved for issue and signed on behalf of the Board of Directors on 27 August 2010.

A.V. Molchanov
President
HMS Group OJSC



K.V. Molchanov
Vice-president
HMS Group OJSC

The accompanying notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

HMS Group OJSC

Consolidated Statement of Comprehensive Income for the years ended 31 December 2009, 2008, 2007

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2009	2008	2007
Revenue	27	14,772,269	14,046,245	13,399,356
Cost of sales	28	(11,164,202)	(10,772,689)	(10,807,001)
Gross profit		**3,608,067**	**3,273,556**	**2,592,355**
Distribution and transportation expenses	29	(482,576)	(517,493)	(399,625)
Excess of fair value of net assets acquired over the cost of acquisition	10	—	33,958	—
General and administrative expenses	30	(1,826,419)	(1,653,383)	(1,228,171)
Impairment of goodwill	9	(116,998)	—	—
Other operating expenses—net	31	(97,636)	(190,187)	(100,772)
Operating profit		**1,084,438**	**946,451**	**863,787**
Finance income	32	58,424	26,450	35,053
Finance costs	33	(865,140)	(488,369)	(249,097)
Share of results of associates	11	17,193	49,444	18,129
Profit before income tax		**294,915**	**533,976**	**667,872**
Income tax expense	26	(211,765)	(204,415)	(176,690)
Profit for the year		**83,150**	**329,561**	**491,182**
Profit for the year		**83,150**	**329,561**	**491,182**
Allocated as follows: Entitlement of participants in respect of their interest in the Company	25	—	(281,927)	(372,430)
Remainder, being entitlement of equity and minority holders		**83,150**	**47,634**	**118,752**
Other comprehensive income				
Currency translation differences		(70,502)	(74,103)	—
Change in cumulative currency translation reserve attributable to participants of the Company	25		4,462	(14,460)
Revaluation gain		—	37,035	—
Currency translation differences of associates		1,283	(31,340)	—
Other comprehensive loss for the year		**(69,219)**	**(63,946)**	**(14,460)**
Total comprehensive income/(loss) for the year		**13,931**	**(16,312)**	**104,292**
Profit attributable to:				
Equity holders of the Company		(18,768)	(24,740)	—
Minority interest		101,918	72,374	118,752
		83,150	**47,634**	**118,752**
Total comprehensive income/(loss) attributable to:				
Equity holders/participants of the Company		(63,877)	(75,823)	(14,460)
Minority interest		77,808	59,511	118,752
		13,931	**(16,312)**	**104,292**

Basic and diluted earnings per ordinary share for loss attributable to the ordinary shareholders

		2009	2008	2007
Basic and diluted earnings per ordinary share for loss attributable to ordinary shareholders		**(0.016)**	**(0.021)**	**—**

The accompanying notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

HMS Group OJSC

Consolidated Statement of Cash Flows
for the years ended 31 December 2009, 2008, 2007

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2009	2008	2007
Cash flows from operating activities				
Profit before income tax		294,915	533,976	667,872
Adjustments for:				
Depreciation and amortization	7, 8	343,987	347,828	277,172
Loss from disposal of property, plant and equipment and intangible assets	31	2,305	30,382	27,273
Finance income	32	(54,408)	(26,450)	(35,053)
Finance costs	33	865,140	413,990	224,667
Pension expenses	18	17,672	24,801	45,130
Provision for warranty	28	18,150	12,455	11,817
Provision for impairment of accounts receivable	30	69,559	32,694	69,373
Provision for obsolete inventories	28	95,949	56,993	48,383
Foreign exchange translation differences		(4,016)	74,348	24,398
Provisions for legal claims	30	13,655	18,311	—
Provision for VAT receivable	30	29,918	826	—
Share of result of associates	11	(17,193)	(49,444)	(18,129)
Impairment of goodwill	9	116,998	—	—
Impairment of property, plant and equipment and intangible assets	7, 8	13,848	—	—
Excess of fair value of net assets acquired over the cost of acquisition	10	—	(33,958)	—
Other non-cash items		1,955	711	—
Operating cash flows before working capital changes		**1,808,434**	**1,437,463**	**1,342,903**
Increase in inventories		(810,442)	(542,698)	(139,810)
Decrease/(Increase) in trade and other receivables		34,191	1,190,231	(1,363,244)
(Decrease)/Increase in taxes payable		(9,530)	133,961	(86,481)
(Decrease)/Increase in accounts payable and accrued liabilities		(71,359)	(698,369)	1,237,507
Restricted cash	12	(285)	270	(690)
Cash generated from operations		**951,009**	**1,520,858**	**990,185**
Income tax paid		(286,395)	(367,006)	(328,099)
Interest paid		(875,750)	(421,100)	(223,974)
Net cash (used in)/from operating activities		**(211,136)**	**732,752**	**438,112**
Cash flows from investing activities				
Repayment of loans advanced		121,778	376,802	90,676
Loans advanced		(108,139)	(407,311)	(110,834)
Proceeds from the sale of property, plant and equipment		1,775	23,876	6,763
Interest received		39,352	8,150	403
Dividend received	11	10,313	8,359	—
Acquisition of intangible assets		(19,741)	(10,454)	(5,304)
Prepayments for business combinations		—	(162,814)	(199,399)
Purchase of property, plant and equipment		(192,365)	(650,252)	(501,858)
Acquisition of associates	11	(122,756)	(50,605)	(398,731)
Acquisitions of subsidiaries, net of cash acquired	10	(239,806)	(261,144)	(398,242)
Net cash used in investing activities		**(509,589)**	**(1,125,393)**	**(1,516,526)**

HMS Group OJSC

Consolidated Statement of Cash Flows
for the years ended 31 December 2009, 2008, 2007 (Continued)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2009	2008	2007
Cash flows from financing activities				
Repayment of borrowings		(5,571,316)	(6,852,625)	(3,777,447)
Proceeds from borrowings		6,775,593	7,852,955	5,413,921
Payment for finance lease		(19,971)	(22,664)	(12,157)
Acquisition of non-controlling interest in subsidiaries	10	(208,799)	(5,890)	(89,167)
Proceeds from sale of non-controlling interest in subsidiaries	10	—	766	—
Prepayments for acquisition of non-controlling interest in subsidiaries		—	(9,753)	—
Dividend paid to minority holders of subsidiaries	24	(160,009)	(291,726)	(221,915)
Capital contribution		—	23,548	—
Net cash from financing activities		**815,498**	**694,611**	**1,313,235**
Net increase in cash and cash equivalents		**94,773**	**301,970**	**234,821**
Effect of exchange rate changes on cash and cash equivalents		**(6,594)**	**(9,691)**	**—**
Cash and cash equivalents at the beginning of the year	12	**669,482**	**377,203**	**142,382**
Cash and cash equivalents at the end of the year	12	**757,661**	**669,482**	**377,203**

The accompanying notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

HMS Group OJSC

Consolidated Statement of Changes in Equity for the years ended 31 December 2009, 2008, 2007

(in thousands of Russian Roubles, unless otherwise stated)

		Capital and reserves attributable to the equity holders of the Company						
	Note	Share capital	Other reserves	Cumulative currency translation reserve	Retained Earnings	Equity attributable to the equity holders	Minority interest	Total Equity
Balance at 1 January 2007		**—**	**—**	**—**	**—**	**—**	**687,257**	**687,257**
Profit for the year attributable to minority interest		—	—	—	—	—	118,752	118,752
Business combinations	10	—	—	—	—	—	85,130	85,130
Acquisition of minority interest in the subsidiaries	10, 25					—	(276,585)	(276,585)
Distribution to minority holders of the Group's subsidiaries	24	—	—	—	—	—	(221,690)	(221,690)
Allocation of net assets to minority holders of the Group's subsidiaries	24	—	—	—	—	—	175,089	175,089
Balance at 31 December 2007		**—**	**—**	**—**	**—**	**—**	**567,953**	**567,953**
Reclassification from net assets attributable to participants liability	1, 25	591,180	(63,869)	(30,362)	1,708,509	2,205,458	—	2,205,458
Net profit for the year		—	—	—	(24,740)	(24,740)	72,374	47,634
Other comprehensive income								
Change in cumulative currency translation reserve		—	—	(61,240)	—	(61,240)	(12,863)	(74,103)
Revaluation gain	24	—	37,035	—	—	37,035	—	37,035
Share of comprehensive income from associates		—	—	(31,340)	—	(31,340)	—	(31,340)
Total comprehensive income for 2008		**—**	**37,035**	**(92,580)**	**(24,740)**	**(80,285)**	**59,511**	**(20,774)**
Distribution to minority holders of the Group's subsidiaries	24	—	—	—	—	—	(291,726)	(291,726)
Allocation of net assets to minority holders of the Group's subsidiaries	25	—	—	—	(33,726)	(33,726)	235,363	201,637
Business combinations	10	—	—	—	—	—	117,886	117,886
Acquisition of minority interest in the subsidiaries	10, 25	—	—	—	(14,049)	(14,049)	(40,873)	(54,922)
Balance as at 31 December 2008		**591,180**	**(26,834)**	**(122,942)**	**1,635,994**	**2,077,398**	**648,114**	**2,725,512**
Net profit for the year		—	—	—	(18,768)	(18,768)	101,918	83,150
Other comprehensive income								
Change in cumulative currency translation reserve		—	—	(46,392)	—	(46,392)	(24,110)	(70,502)
Share of comprehensive income from affiliates share holding		—	—	1,283	—	1,283	—	1,283
Total comprehensive income for 2009		**—**	**—**	**(45,109)**	**(18,768)**	**(63,877)**	**77,808**	**13,931**
Distribution to minority holders of the Group's subsidiaries	24	—	—	—	—	—	(160,009)	(160,009)
Allocation of net assets to minority holders of the Group's subsidiaries	24	—	—	—	(123,541)	(123,541)	123,541	—
Business combinations	10	—	—	—	—	—	9,335	9,335
Acquisition of minority interest in the subsidiaries	10	—	—	—	(107,528)	(107,528)	(106,514)	(214,042)
Disposal of minority interest in the subsidiaries	10	—	—	—	(77,356)	(77,356)	77,356	—
Balance as at 31 December 2009		**591,180**	**(26,834)**	**(168,051)**	**1,308,801**	**1,705,096**	**669,631**	**2,374,727**

The accompanying notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

1 The HMS Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for three years ended 31 December 2009, 2008, 2007 for Open Joint Stock Company HMS Group (formerly operating as Investment and Industrial Group Hydraulic Machines and Systems LLC; the "Company") and its subsidiaries ("the Group"). The Group's principal business activities are: manufacturing of a wide range of pumps and pumping units, manufacturing and repairing of oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is 3rd Pryadilnaya St. 6A, 105037 Moscow. The Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk and Tyumen regions of the Russian Federation, Sumy in Ukraine and Minsk in Belorussia.

Before 29 August 2008 the Company was a limited liability company and incorporated and domiciled in the Russian Federation. On 29 August 2008 the Company changed its legal form and company name from Investment and Industrial Group Hydraulic Machines and Systems LLC to HMS Group OJSC.

The Group's ultimate parent company is HMS-Holdng LLC which is jointly controlled by Hydroindustry LLC and Hydromashinvest LLC (Notes 24 and 25). In accordance with the charter of HMS-Holding LLC, Hydroindustry LLC has the prerogative right to appoint the executive body of HMS-Holding LLC and its subsidiary (including the Company) and Hydromashinvest LLC has the prerogative right to appoint the checkup committee of HMS-Holding LLC and its subsidiary (including the Company).

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.

(iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Reduced revenue budgets and more challenging situation in the markets for entity's products and services have led management to perform an impairment test of the Group's property, plant and equipment, intangible assets and goodwill. Refer to Notes 7, 8 and 9. The Group recognized the resulting impairment loss totaling RR 130,846 thousand (no impairment was recognized in 2008, 2007).

2 Operating Environment of the Group (Continued)

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Presentation currency. All amounts in these financial statements are presented in thousands of Russian Roubles ("RR"), unless otherwise stated.

Consolidated financial statements. Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or obtainable from presently convertible instruments are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the acquiree at each exchange transaction represents goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss for the year.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

When a business combination involves more than one transaction any adjustments to those fair values relating to any previously held interest of the Group is recognised as a revaluation in other comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

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

Purchases and sales of minority interests. The Group applies the economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the

3 Summary of Significant Accounting Policies (Continued)

carrying amount of minority interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the statement of changes in equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for in accordance with the purchase method of accounting.

Associates. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates; the Group's share of post-acquisition other comprehensive income of associates is recognised in the Group's other comprehensive income as share of results of associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

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

	Number of years
Buildings	3–50
Plant and equipment	10–15
Transport	7
Other	3–5

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to

3 Summary of Significant Accounting Policies (Continued)

use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

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

	Useful lives in years
Patents	5–20
Licensed technology	1–18
Software licences	1–7
Customer relationships	2
Trademarks	5–10
Website	2–10

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

Intangible assets—Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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

Financial liabilities. All financial liabilities of the Group fall into one measurement category: other financial liabilities.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

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

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

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

	2009	2008	2007
1 USD = RR	30.2442	29.3804	24.5462
1 UAH = RR	3.7617	3.8557	4.8236
1 BYR = RR	0.01061	0.0133	0.0114

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

When the Group issues equity instruments to extinguish a financial liability it removes the financial liability (or part of a financial liability) from its statement of financial position when, and only when, the liability is extinguished and the equity instruments issued to extinguish the financial liability are recognised initially, at the carrying amount of the liability at the date of conversion.

Net assets attributable to participants. Until 29 August 2008, the Company's equity participants had a right to request redemption of their interests in the Company in cash (Note 25). The Company's obligation to redeem gave rise to a financial liability for the present value of the redemption amount even though the obligation was conditional on the equity participant exercising the right. The redemption amount was variable and depended on the Company's net assets determined in accordance with the Russian Accounting Regulations. As a practical expedient the Company measured the liability presented as 'Net assets attributable to participants' at the carrying values of net assets that were or could have been distributable to participants, determined in accordance with the Russian Accounting Regulations for the Company or determined in accordance with IFRS for the Group, whichever were higher. The liability was classified as non-current because the Company, in accordance with its charter, had an unconditional right

3 Summary of Significant Accounting Policies (Continued)

to defer redemption for at least twelve months after the statement of financial position date. Until 29 August 2008 dividends to participants are presented as a finance cost in the income statement and are recognised when declared.

The statement of comprehensive income for 2007 and from 1 January 2008 through 28 August 2008 shows the total amounts allocated to the Company's participants in their capacity as holders of the capital of the Company. Other changes in net assets attributable to the Company's participants resulted from transactions with participants in their capacity as owners of the Company are recognised directly in the cumulative surplus of net assets as disclosed in Note 25.

For the purpose of presentation in the statement of comprehensive income for the year ended 31 December 2008, the results for the year ended 31 December 2008 were not bifurcated for the period before 29 August 2008 and after 29 August 2008.

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

The revised *IAS 1, Presentation of Financial Statements*, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The opening statement of financial position is presented in these financial statements as a result of changes in presentation made following the adoption of the revised IAS 1 from 1 January 2009, including the introduction of the statement of comprehensive income. The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

The reclassifications in the statement of financial position had an impact on information disclosed in Note 14, 20, 21 and Note 27 and had no impact on any other captions in the statement of financial position and related note disclosures.

The effect of reclassifications for presentation purposes was as follows:

	Amount before adjustment at 31 December 2006	Adjustment	Adjusted amount at 31 December 2006
Provisions for liabilities and charges (non-current)	5,181	(5,181)	—
Trade and other payable (current)	1,220,587	(32,470)	1,188,117
Provisions for liability and charges (current)	—	37,651	37,651

3 Summary of Significant Accounting Policies (Continued)

	Amount before adjustment at 31 December 2007	Adjustment	Adjusted amount at 31 December 2007
Provisions for liabilities and charges (non-current)	29,594	(29,594)	—
Long-term payables	—	14,938	14,938
Trade and other payable (current)	3,856,253	(107,598)	3,748,655
Provisions for liability and charges (current)	—	122,254	122,254

	Amount before adjustment at 31 December 2008	Adjustment	Adjusted amount at 31 December 2008
Provisions for liabilities and charges (non-current)	27,111	(27,111)	—
Trade and other payable (current)	3,413,961	(175,102)	3,238,859
Provisions for liability and charges (current)	—	202,220	202,220

	Amount before adjustment at 31 December 2008	Adjustment	Adjusted amount at 31 December 2008
Trade and other receivables	3,076,888	(46,116)	3,030,772
Deferred tax liability	240,670	(9,223)	231,447
Equity attributable to the Company's equity holders (through profit or loss for 2008)	2,099,216	(21,817)	2,077,399
Minority interest	663,197	(15,083)	648,114

In 2009 the Group's management reconsidered its approach in respect of revenue recognition for certain long-term construction contracts which commenced in 2007. Management has retrospectively reduced the amount of revenues earned during the year ended 31 December 2008 and the related trade receivable as of that date by RR 46,116. The associated deferred tax impact resulted in the income tax expense and the deferred tax liability for 2008 reducing by RR 9,223. As a result, the 2008 comparative amounts in these financial statements differ from the 2008 amounts previously reported by the Group due to the adjustments described above. The adjustments had no impact on retained earnings for 2007.

Corresponding changes were made to Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows.

In 2009 the Group's management reconsidered its approach in respect of presentation of provisions for liabilities and charges and started to present them as separate line in Statement of Financial Position. Corresponding changes were made to all comparative information.

In 2009 the Group's management amended presentation of foreign exchange difference in the cash flow statement for the year ended 31 December 2007 to reconcile it with Finance costs line of Consolidated Statement of Comprehensive Income. The effect of reclassification on consolidated statement of cash flows for presentation purposes was as follows:

	Amount before adjustment 2007	Adjustment	Adjusted amount 2007
Increase in accounts payable and accrued liabilities	1,266,435	(28,928)	1,237,507
Provision for warranty	11,709	108	11,817
Foreign exchange translation difference	(4,422)	28,820	24,398

3 Summary of Significant Accounting Policies (Continued)

In 2009 the Group's management amended presentation of dividends paid to minority holders of subsidiaries in the cash flow statement for the year ended 31 December 2008. The effect of reclassification on consolidated statement of cash flows for presentation purposes was as follows:

	Amount before adjustment 2008	Adjustment	Adjusted amount 2008
Decrease in accounts payable and accrued liabilities	(754,733)	56,364	(698,369)
Dividends paid to minority holders of subsidiaries	(235,362)	(56,364)	(291,726)

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. (Please refer to Note 34).

(b) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 35.

(c) Provision for pension obligations

The principal assumptions used in valuation of pension obligations are the discount rates used in determining the present value of post employment benefits, expected rate of return on plan assets, salaries at retirement for post-employment defined benefit plan (Note 18). The Group's estimates for pension obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively. Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions.

(d) Assessment of percentage of completion on construction contracts

The Group uses percentage of costs incurred up to the statement of financial position date to total estimated costs to determine the stage of completion of the contract. The assessed stage of completion of the contract is used to determine the amount of revenue and expenses recognized in the reporting period. Actual total costs may differ from estimated total costs. The Group uses all relevant available data to determine amount of estimated total costs. The accuracy of estimates is assessed and estimates are corrected if necessary on an annual basis.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

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

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

If the management's estimates on useful lives differ by 10%, the impact on depreciation for the year ended 31 December 2009 would be either increase or decrease by RR 32,297 (2008: RR 30,850; 2007: RR 24,406).

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

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

(g) Assesment of construction revenue and receivables related to construction contracts

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

A variation is included in contract revenue when: it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and the amount of revenue can be reliably measured. Because of the frequency and large number of disputes that arise on construction contracts and the length of time over which negotiations may stretch. The Group takes variations and claims into account only when they have actually been approved by the customer.

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

(h) Deferred income tax asset recognition

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

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

(i) Estimated impairment of property, plant and equipment

At 31 December 2009 the Group performed an impairment test of property, plant and equipment. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 5 years. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. An impairment charge of RR 10,558 for property, plant and equipement and RR 3,290 for intangible assets resulted in the carrying amount of Electrodvigatel OJSC has been written down to its recoverable amount (Note 7). Change of estimates would not cause additional impairment charge except for Trest Sibkomplektmontazhnaladka OJSC and Rostovskiy Vodokanalproekt OJSC described below.

(j) Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 9. An impairment charge of RR 94,881 and RR 22,117 resulted in the carrying amount of Trest Sibkomplektmontazhnaladka OJSC and Rostovskiy Vodokanalproekt OJSC, respectively, has been written down to its recoverable amount (Note 9).

If the EBIT margin used in the value-in-use calculation for abovementioned cash generating units had been 1% lower than management's estimates, the Group would have recognised a further impairment of goodwill by RR 95,691 and RR 20,756 respectively and further impairment of property plan and equipment of RR 237,601 for the year ended 31 December 2009. If revenue forecasted for 2011 used in the value-in-use calculation had been 5% lower than management's estimates, the Group would have recognised a further impairment of goodwill by RR 95,691 and RR 7,044 respectively and further impairment of property plan and equipment of RR 67,200. If the estimated cost of capital used in determining the pre-tax discount rate had been 5% higher than management's estimates, the Group would have recognised a further impairment of goodwill of RR 95,691 and RR 68,286, respectively and further impairment of property plan and equipment of RR 53,081.

(k) Non consolidation of an associate

Management has exercised its judgement whether the right to acquire an additional 11% in Dimitrovgradkhimmash OJSC is currently exercisable and has concluded that is not. Therefore Dimitrovgradkhimmash OJSC is treated as an investment in associate and not a subsidiary. As per the agreement the seller is obliged to sell additional 11% in Dimitrovgradkhimmash OJSC within 5.5 years from acquisition of the initial investment on terms and conditions to be agreed in the future; and the seller cannot sell such shares until then. However, because the price to be paid will be the fair value and the seller has the right to pay a penalty to the Group equal to the value of the 11% of the shares determined at a price stated in the July 2007 share-purchase agreement management believes that this is not a currently exercisable right (as the seller can walk away with the payment of a penalty), therefore, the right is not currently exercisable within the meaning of IAS 27.14 and therefore the Group does not control Dimitrovgradkhimmash OJSC.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2009:

- *IAS 23, Borrowing Costs*, revised in March 2007. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time

5 Adoption of New or Revised Standards and Interpretations (Continued)

to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalization is on or after 1 January 2009. Other borrowing costs are recognized as an expense using the effective interest method. As a result of the adoption of this standard during the year ended 31 December 2009 the Group capitalised borrowing costs of RR 11,290 to construction contract work in progress with RR 9,769 expensed as expese during the year.

- *IAS 1, Presentation of Financial Statements*, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Management believes that these improvements do not significantly influence these financial statements. Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.
- Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements. Vesting Conditions and Cancellations—Amendment to *IFRS 2, Share-based Payment*. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not currently applicable to the Group as it has no such payments.

5 Adoption of New or Revised Standards and Interpretations (Continued)

- *IFRIC 13, Customer Loyalty Programmes.* IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.
- *IFRIC 15, Agreements for the Construction of Real Estate.* The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on the Group's consolidated financial statements.
- *IFRIC 16, Hedges of a Net Investment in a Foreign Operation.* The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these consolidated financial statements as the Group does not apply hedge accounting.
- Improving Disclosures about Financial Instruments—Amendment to *IFRS 7, Financial Instruments: Disclosures*, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group considered relevance of the enhanced disclosures for these financial statements. The amendment did not have significant impact on these financial statements.
- Embedded Derivatives—Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. This amendment did not have any impact on these financial statements because the Group did not have embedded derivatives.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognizing and measuring assets, liabilities, income and expense have been simplified, and the

5 Adoption of New or Revised Standards and Interpretations (Continued)

number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group did not to apply the IFRS for SMEs.

Standards and amendments early adopted by the Group. *IFRS 8, Operating Segments* (effective for annual periods beginning on or after 1 January 2009) was early adopted in 2007. IFRS 8 replaces *IAS 14, Segment reporting*, and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosure about segments of and enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group early adopted amendment for IFRS 8 as at 1 January 2009 and reports a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker.

6 New Accounting Pronouncements

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as a transaction to be directly recorded in net assets attributable to participants. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its

6 New Accounting Pronouncements (Continued)

owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

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

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

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

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognized in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendments will not have an impact on the Group's consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements.

Classification of Rights Issues—Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

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

7 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2007	**81,610**	**1,095,005**	**704,401**	**96,041**	**125,884**	**87,466**	**2,190,407**
Accumulated depreciation	**—**	**(54,069)**	**(143,754)**	**(25,197)**	**(38,555)**	**—**	**(261,575)**
Carrying amount at 1 January 2007	**81,610**	**1,040,936**	**560,647**	**70,844**	**87,329**	**87,466**	**1,928,832**
Acquisitions through business combinations (Note 10)	36,850	425,608	205,465	18,852	8,277	32,381	727,433
Additions	—	3,742	47,403	5,265	2,559	431,017	489,986
Transfers	—	71,023	238,737	26,350	27,424	(363,534)	—
Disposals	—	(1,291)	(15,140)	(1,987)	(4,580)	(12,162)	(35,160)
Depreciation for the period	—	(42,136)	(157,794)	(23,504)	(20,622)	—	(244,056)
Cost at 31 December 2007	**118,460**	**1,593,816**	**1,170,499**	**142,415**	**153,101**	**175,168**	**3,353,459**
Accumulated depreciation	**—**	**(95,934)**	**(291,181)**	**(46,595)**	**(52,714)**	**—**	**(486,424)**
Carrying amount at 1 January 2008	**118,460**	**1,497,882**	**879,318**	**95,820**	**100,387**	**175,168**	**2,867,035**
Acquisitions through business combinations (Note 10) and contribution to charter capital (Note 25)	—	620,295	166,952	4,110	9,139	35,313	835,809
Additions	857	62,357	392,837	23,734	36,450	140,002	656,237
Transfers	—	6,693	19,277	2,838	856	(29,664)	—
Disposals	—	(2,869)	(4,290)	(2,336)	(2,144)	(58,680)	(70,319)
Depreciation for the period	—	(62,465)	(188,756)	(29,625)	(27,656)	—	(308,502)
Translation to presentation currency	5,841	(11,478)	(19,361)	(1,769)	(23,828)	(1,292)	(51,887)
Carrying amount at 31 December 2008	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Cost at 31 December 2008	**125,158**	**2,263,606**	**1,708,552**	**162,978**	**167,508**	**260,847**	**4,688,649**
Accumulated depreciation	**—**	**(153,191)**	**(462,575)**	**(70,206)**	**(74,304)**	**—**	**(760,276)**
Carrying amount at 1 January 2009	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Acquisitions through business combinations (Note 10)	10,746	90,274	25,886	1,174	2,967	—	131,047
Additions	7,637	45,914	115,650	8,418	34,413	104,066	316,098
Transfers	—	138,731	46,296	—	3,670	(188,697)	—
Disposals	(5,098)	(2,166)	(7,606)	28	(2,118)	(30,603)	(47,563)
Impairment charge	—	(1,850)	(6,699)	—	(1,082)	(927)	(10,558)
Depreciation for the period	—	(74,974)	(192,811)	(24,381)	(30,420)	—	(322,586)
Translation to presentation currency	(713)	(23,792)	(13,824)	(1,284)	(609)	218	(40,004)
Carrying amount at 31 December 2009	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**
Cost at 31 December 2009	**137,730**	**2,510,359**	**1,866,313**	**167,577**	**202,145**	**145,831**	**5,029,955**
Accumulated depreciation and impairment	**—**	**(227,807)**	**(653,444)**	**(90,850)**	**(102,120)**	**(927)**	**(1,075,148)**
Carrying amount at 31 December 2009	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**

As of 31 December 2009, the Group's property, plant and equipment for a total of RR 1,009,149 had been pledged as security for loans (2008: RR 138,006; 2007: RR 192,522) (Note 16).

7 Property, Plant and Equipment (Continued)

The Group leases plant and equipment under a finance lease arrangements. As of 31 December 2009, the gross book value of the leased equipment was RR 100,357 (2008: RR 100,357; 2007: RR 102,537), accumulated depreciation was RR 34,870 (2008: RR 21,807; 2007: RR 9,557).

Construction-in-progress includes advances for capital expenditures for a total of RR 49,843 as of 31 December 2009 (2008: RR 62,171; 2007: RR 68,008).

Non-current assets impairment test. Due to impairment indicators occurred at the end of 2008 and 2009 the impairment test was performed for certain cash-generating units (CGUs).

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

Based on the results of these calculations the Group recognized an impairment loss as of 31 December 2009 and for the year then ended: RR 10,558 for property, plant and equipment and RR 3,290 for other intangible assets related to Electrodvigatel OJSC (Note 8).

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

	2009	2008
Growth rate beyond five years	3%	0.1%
Pre-tax discount rate	From 16% to 22%	17%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

8 Other Intangible Assets

	Patents	Licensed technology	Acquired software license	Customer relationships	Trademarks	Websites	Total
Carrying amount at 1 January 2007	**11,795**	**3,013**	**3,493**	**52,980**	**—**	**26**	**71,307**
Cost at 1 January 2007	**18,554**	**5,697**	**4,250**	**52,980**	**—**	**26**	**81,507**
Accumulated amortization and impairment	**(6,759)**	**(2,684)**	**(757)**	**—**	**—**	**—**	**(10,200)**
Acquisitions through business combinations (Note 10)	—	1,120	2,112	—	—	—	3,232
Additions	1,287	4,088	9,413	—	—	—	14,788
Disposals	(6,790)	(1,269)	(1,563)	—	—	—	(9,622)
Amortization for the year	(2,485)	(754)	(3,382)	(26,490)	—	(5)	(33,116)
Carrying amount at 1 January 2008	**3,807**	**6,198**	**10,073**	**26,490**	**—**	**21**	**46,589**
Cost at 1 January 2008	**7,405**	**9,282**	**13,587**	**52,980**	**—**	**26**	**83,280**
Accumulated amortization and impairment	**(3,598)**	**(3,084)**	**(3,514)**	**(26,490)**	**—**	**(5)**	**(36,691)**
Acquisitions through business combinations (Note 10) and capital contribution (Note 25)	11,269	23	3,853	7,518	14,104	43	36,810
Additions	390	5,760	6,926	—	—	—	13,076
Disposals	(1,346)	—	(3,346)	—	—	—	(4,692)
Amortization for the year	(2,296)	(3,494)	(3,739)	(29,251)	(535)	(11)	(39,326)
Translation to presentation currency	202	—	1	252	525	2	982
Carrying amount at 31 December 2008	**12,026**	**8,487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**
Cost at 31 December 2008	**12,576**	**13,097**	**18,429**	**7,595**	**14,528**	**70**	**66,295**
Accumulated amortization	**(550)**	**(4,610)**	**(4,661)**	**(2,586)**	**(434)**	**(15)**	**(12,856)**
Carrying amount at 1 January 2009	**12,026**	**8,487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**
Acquisitions through business combinations (Note 10)	—	2,390	—	—	—	—	2,390
Additions	19	4,638	10,131	—	3,935	1,134	19,857
Disposals	(6)	(1,565)	(969)	(213)	—	—	(2,753)
Impairment charge		(700)	(2,590)	—	—	—	(3,290)
Amortization for the year	(2,990)	(4,168)	(6,720)	(4,504)	(2,944)	(75)	(21,401)
Translation to presentation currency	(1,198)	(13)	(25)	320	(215)	(2)	(1,133)
Carrying amount at 31 December 2009	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**
Cost at 31 December 2009	**11,015**	**15,955**	**26,767**	**4,893**	**18,108**	**1,201**	**77,939**
Accumulated amortization and impairment	**(3,164)**	**(6,886)**	**(13,172)**	**(4,281)**	**(3,238)**	**(89)**	**(30,830)**
Carrying amount at 31 December 2009	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**

9 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	Note	2009	2008	2007
Gross book value as of 1 January		306,682	207,329	16,757
Accumulated impairment as of 1 January		—	—	—
Carrying amount as of 1 January		**306,682**	**207,329**	**16,757**
Acquisitions of subsidiary	10	117,308	99,353	190,572
Impairment of goodwill		(116,998)	—	—
Carrying amount as of 31 December		**306,992**	**306,682**	**207,329**
Gross book value as of 31 December		423,990	306,682	207,329
Accumulated impairment losses as of 31 December		(116,998)	—	—
Carrying amount as of 31 December		**306,992**	**306,682**	**207,329**

Goodwill impairment test

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

	2009	2008	2007
Hydromash-Industria LLC	4,519	4,519	—
Tomskgazstroy OJSC	16,757	16,757	16,757
Rostovskiy Vodokanalproekt OJSC	72,717	94,834	—
Trest Sibkomplektmontazhnaladka OJSC	95,691	190,572	190,572
EPF "SIBNA" Inc. JSC	117,308	—	—
Total carrying amount of goodwill	**306,992**	**306,682**	**207,329**

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

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

	2009	2008	2007
Growth rate beyond five years	3%	0.1%	0.1%
Pre-tax discount rate	From 16% to 22%	17%	13%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As a result of impairment test performed for certain CGUs an impairment loss related to Trest Sibkomplektmontazhnaladka OJSC (RR 94,881) and Rostovskiy Vodokanalproekt OJSC (RR 22,117) was identified and recognized in the these consolidated financial statements.

10 Business Combinations

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

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

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

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

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

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

Acquisition/disposal of minority interest in subsidiaries

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

During 2009, in a series of transactions, the Group acquired an additional 15.89% interest in Tomskgazstroy OJSC for RR 144,296 paid in cash. As a result of these transactions, the Group increased

10 Business Combinations (Continued)

its ownership interest in Tomskgazstroy OJSC from 62.01% to 77.90% decreasing the minority interest by RR 59,083.

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

In March 2009, the Group acquired an additional 10.36% interest in Livnynasos OJSC for RR 62,086, paid in cash. As a result of this transaction, the Group increased its ownership interest in Livnynasos OJSC from 70% to 80.36% decreasing the minority interest by RR 39,885.

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

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

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

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

Acquisitions made in 2008

In March 2008 the Group acquired a 100% interest in Hydromash-Industria LLC for RR 10,325 paid in cash. The acquired subsidiary is engaged in the design of pumping equipment and spare parts. The cost of acquisition was allocated to the assets acquired and liabilities assumed. The acquired company contributed revenue of RR 16,601 and loss of RR 1,657 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 19,249, and loss would have been RR 2,104 for the year ended 31 December.

In November 2008 the Group acquired a 99.5% interest in SPA Gidromash CJSC, for a consideration of RR 129,754 paid in cash. The acquired entity's activity is the production and sale of pumps and related equipment. The acquired entity contributed revenue of RR 42,240 and loss of RR 13,056 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 319,904, and profit would have been RR 19,316 for the year ended 31 December.

In December 2008 the Group acquired a 72.03% interest in Institute Rostovskiy Vodokanalproekt OJSC for a consideration of RR 163,049, paid in cash. The acquired entity's activity is the design of water-supply systems, sewage systems and related equipment. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 137,500, and profit would have been RR 17,565 for the year ended 31 December.

In December 2008 the Group obtained control over Promburvod Plant OJSC by increasing its share from 40% (Note 11) to 51.4% for purchase consideration of RR 5,075, paid in cash. The acquired entity's

10 Business Combinations (Continued)

activity is the production and sale of pumps and related equipment. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 248,213, and loss would have been RR 7,912 for the year ended 31 December 2008.

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

	Hydromash-Industria LLC	Rostovskiy Vodokanalproekt OJSC	SPA Gidromash CJSC	Promburvod Plant OJSC
	Attributed fair value	Attributed fair value	Attributed fair value	Attributed fair value
Property, plant and equipment	100	109,990	124,509	161,415
Intangible assets	4,893	3,794	22,063	6,050
Investment in associate	—	11,270	—	—
Other long-term receivables	—	—	—	348
Inventories	3,125	23,196	58,126	80,608
Trade and other receivables	2,934	34,097	49,773	13,371
Cash and cash equivalents	634	32,449	7	13,969
Long-term borrowings	—	—	—	(788)
Deferred tax liability	(1,483)	(17,451)	(21,815)	(21,639)
Pension liability	—	—	—	(3,588)
Other provisions for liabilities and charges	—	—	—	(156)
Trade and other payable	(3,729)	(85,084)	(70,193)	(46,395)
Short-term borrowings	(500)	(11)	(6,685)	(11,305)
Pension liability	—	—	(428)	(700)
Current income tax payable	—	(4,254)	(4,711)	(687)
Other taxes payable	(168)	(13,292)	(2,400)	(3,932)
Fair value of net assets	**5,806**	**94,704**	**148,246**	**186,571**
Less: Minority interest	—	(26,489)	(692)	(90,705)
Less: Fair value of previously held interest in associate	—	—	—	(74,633)
Fair value of acquired interest in net assets	**5,806**	**68,215**	**147,554**	**21,233**
Goodwill	4,519	94,834	—	—
Excess of the Group's share of the fair value of acquired net assets over the purchase price	—	—	(17,800)	(16,158)
Total purchase consideration	**10,325**	**163,049**	**129,754**	**5,075**
Less: cash and cash equivalents of subsidiaries acquired	(634)	(32,449)	(7)	(13,969)
Outflow of cash and cash equivalents on acquisition	**9,691**	**130,600**	**129,747**	**(8,894)**

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

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

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

10 Business Combinations (Continued)

Acquisition and disposal of minority interest in subsidiaries in 2008

In January 2008, the Group sold 0.5% interest in Livhydromash OJSC for RR 766, respectively, paid in cash. As a result of this transaction, the Group decreased its ownership interest in Livhydromash OJSC from 96.3% to 95.8% increasing the minority interest by RR 2,588. Also the Group decreased its ownership interest in Livnynasos OJSC from 70.2% to 70.0% increasing the minority interest by RR 1,072.

In February 2008, the Group acquired an additional 1.4% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 1,419, respectively, paid in cash. In August 2008, the Group acquired an additional 0.2% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 160, respectively, paid in cash. As a result of these transactions, the Group increased its ownership interest in Trest Sibkomplektmontazhnaladka OJSC from 97.0% to 98.6% decreasing the minority interest by RR 5,190.

In June 2008, Tomskgazstroy OJSC increased its share capital by RR 20,000 through issuing of 100 thousand of preference shares with the nominal value of RR 200 each. Preference shares were sold to related parties (ultimate beneficiaries of the Group). In August 2008, the Group acquired an additional 2.1% interest in Tomskgazstroy OJSC for RR 4,471, respectively, paid in cash. As a result, the effective interest in the subsidiary owned by the Group increased from 50.7% to 62% and minority interest decreased by RR 36,613.

In November 2008, the Group transferred ownership interest in Sibservis LLC from HYDROMASHSERVICE CJSC to HYDROMASHINPROM CJSC. As a result of these transactions, the Group decreased its ownership interest in Sibservis LLC from 100% to 71.3% increasing the minority interest by RR 7,688.

In November 2008, the Group reallocated interest in Hydraulic Machines and Systems Management LLC between companies of the Group. As a result of these transactions, the Group increased its ownership interest in Hydraulic Machines and Systems Management LLC from 84.2% to 98.1% and decreased the minority interest by RR 10,217.

Acquisitions made in 2007

In July 2007 the Group acquired, through a series of transactions, a 73.9% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 428,359 paid in cash.

The acquired subsidiary engaged in the construction and assembly of infrastructure assets for oilfield deposits. The cost of acquisition was allocated to the assets acquired and liabilities assumed. The acquired company contributed revenue of RR 1,894,055 and profit of RR 40,140 to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the revenue from the acquired business would have been RR 2,902,272 thousand, and profit would have been RR 47,548 thousand for 2007.

10 Business Combinations (Continued)

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

	Attributed fair value
Property, plant and equipment	727,433
Intangible assets	3,232
Other non-current assets	155
Inventories	578,193
Trade receivables	97,167
Taxes and levies receivable	3,998
Other accounts receivable	236,467
Promissory notes receivables	52,307
Cash and cash equivalents	30,117
Deferred tax liability	(67,902)
Borrowings	(42,500)
Trade and other payable	(1,252,483)
Finance lease liability	(43,267)
Fair value of net assets	**322,917**
Less: Minority interest	(85,130)
Fair value of acquired interest in net assets	**237,787**
Goodwill	190,572
Total purchase consideration	**428,359**
Less: cash and cash equivalents of subsidiaries acquired	(30,117)
Outflow of cash and cash equivalents on acquisition	**398,242**

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

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

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

Acquisition of minority interest in subsidiaries in 2007

In August and November 2007 the Group acquired an additional 13% and 10% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 12,966 and RR 9,757, respectively, paid in cash. As a result of these transactions the Group increased its ownership interest in Trest Sibkomplektmontazhnaladka OJSC from 73.9% to 96.9% decreasing the minority interest by RR 83,066.

During 2007 the Group acquired an additional 12% interest in Neftemash OJSC for RR 9,662 paid in cash. As a result of the transaction the Group increased its ownership interest in Neftemash OJSC from 68% to 80% decreasing the minority interest by RR 75,706.

In November 2007 the Group acquired an additional 28% interest in Tomskgazstroy OJSC for RR 56,782 paid in cash. As a result of the transaction the Group increased its ownership interest in Tomskgazstroy OJSC from 23% to 51% decreasing the minority interest by RR 109,251.

Increase in effective shareholding in Neftemash OJSC led to the corresponding increase in effective shareholding in Livnynasos OJSC by 2% and consequently to decrease in minority interest by RR 8,562.

11 Investments in Associates

In June 2009 the Group increased its interest by 8.03% in Dimitrovgradkhimmash OJSC for RR 122,756 paid in cash. The Group's share within associated net assets as at acquisition date was RR 61,589.

In February 2009 one of the Group's subsidiaries—the Institute Rostovskiy Vodokanalproekt OJSC disposed its interest of 35.29% in Vodokanalproektirovanie LLC through the return of capital contribution previously made by property, plant and equipment.

Investments in associates at 31 December 2009 include goodwill of RR 128,221 (31 December 2008: RR 70,418; 31 December 2007: RR 67,265).

The Group's investments in associates are as follows:

	31 December 2009	31 December 2008	31 December 2007
Carrying amount at 1 January	**449,848**	**416,860**	**—**
Cost of acquisition of associates	122,756	50,605	398,731
Acquisition through business combination (Note 10)	—	11,270	—
Cost of disposal of associates	(11,031)	—	—
Reclassification due to acquisition of controlling interest	(62,443)	(38,632)	—
The excess of fair value of the net assets acquired over the cost of acquisition	—	9,155	9,680
Dividends	(10,313)	(8,359)	—
Share of after tax results of associates	17,193	40,289	8,449
Translation to presentation currency	1,283	(31,340)	—
Carrying amount at 31 December	**507,293**	**449,848**	**416,860**

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

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	1,034,601	258,265	910,840	77,297	38.02%	Russian Federation
VNIIAEN OJSC	198,571	21,075	76,404	(14,224)	47.18%	Ukraine

As of 31 December 2008, the Group's interest in associates and total financial information including assets, liabilities, revenue and profit and losses are as follows:

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	1,047,956	314,166	1,050,914	96,418	29.99%	Russian Federation
VNIIAEN OJSC	241,836	52,849	73,336	24,169	47.18%	Ukraine
Vodokanalproektirovanie LLC	22,469	146	840	(677)	35.29%	Russian Federation
EPF "SIBNA" Inc. JSC*	249,063	39,903	132,935	8,115	29.91%	Russian Federation

* The entity has become a subsidiary in 2009 (Note 10).

11 Investments in Associates (Continued)

As of 31 December 2007, the Group's interest in associates and total financial information including assets, liabilities, revenue and gains and losses are as follows:

Name of associate	Total assets	Total liabilities	Revenue	Profit/(loss) after tax	Interest in associate	Location
Dimitrovgradkhimmash OJSC	943,619	275,982	270,674	29,927	29.99%	Russian Federation
Promburvod Plant OJSC*	138,592	39,300	94,105	5,741	40%	Belorussia
VNIIAEN OJSC	231,810	89,499	7,912	(4,042)	47.18%	Ukraine

* The entity has become a subsidiary in 2008 (Note 10).

Impairment test for investment in associates. Due to impairment indicators occurred at the end of 2008 and 2009 the impairment test was performed for investments in associates.

The entire carrying amount of investment in each associate was tested for impairment by comparing its carrying amount with recoverable amount determined based on value-in-use calculations. These calculations are based on financial budgets approved by management covering a five-year period and use cash flow projections expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment. The recoverable amount of VNIIAEN OJSC was tested for impairment together with Nasosenergomash OJSC, Livhydromash OJSC and SPA Gidromash CJSC as the associate does not generate cash inflows from continuing use that are largely independent of those from these entities.

Based on the results of these calculations the Group concluded that no impairment charge is required.

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

	2009	2008
Growth rate beyond five years	3%	0.1%
Pre-tax discount rate	From 16% to 22%	17%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant investment.

12 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2009	31 December 2008	31 December 2007
Cash on hand	719	1,080	2,392
RR denominated balances with banks	268,069	234,553	271,796
Foreign currency denominated balances with banks	107,088	52,778	22,625
RR denominated bank deposits	381,045	381,071	4,653
Promissory notes receivable on demand	—	—	72,633
Other cash equivalents	740	—	3,104
	757,661	**669,482**	**377,203**

As at 31 December 2009 the closing balance of short-term bank deposits comprised short-term bank deposit in six banks with a 1–13% interest rate (2008: 3–13%—two banks; 2007: 0,1%—one bank).

12 Cash and Cash Equivalents (Continued)

Restricted cash

Restricted cash of RR 905 (2008: RR 620; 2007: RR 890) represents minimum balances for settlement and corporate plastic cards balances.

13 Inventories

	31 December 2009	31 December 2008	31 December 2007
Materials and components	951,228	978,006	601,388
Inventory for implementation of construction contracts	1,072,281	334,652	394,404
Work in progress	414,879	413,293	403,061
Finished goods and Goods for resale	838,670	763,869	505,559
Other inventories	127,087	59,206	16,772
Provision for obsolete inventories	(224,501)	(116,522)	(68,226)
	3,179,644	**2,432,504**	**1,852,958**

At 31 December 2009 inventories of RR 527,890 were pledged as collateral for borrowings (2008: RR 77,991; 2007: RR 204,823) (Note 16).

The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 28.

14 Trade and Other Receivables

	31 December 2009	31 December 2008	31 December 2007
Trade receivables	**1,507,542**	**1,541,870**	**2,354,203**
Less: provision for impairment of trade receivables	(111,184)	(126,729)	(51,387)
Promissory notes receivable	3,533	17,760	17,395
Promissory notes receivable on demand	2,706		
Bank deposits receivable	24,518	38,500	15,000
Short-term loans issued	103,667	87,933	67,620
Other receivables	78,954	81,915	55,753
Less: provision for impairment	(23,189)	(7,822)	(12,242)
Receivable due from customers for construction work in pogress (Note19)	154,388	211,621	60,227
Less: provision for receivable due from customers for construction work in progress	(95,560)	—	—
Financial assets within Trade and other receivables—net	**1,645,375**	**1,845,048**	**2,506,569**
Advances to suppliers	714,059	830,350	1,011,597
VAT receivable	585,816	419,784	412,093
Provision for VAT receivable	(32,802)	(2,884)	—
Other taxes receivable	15,377	9,569	4,350
Less: provision for impairment	(52,070)	(73,979)	(65,515)
Non-financial assets within other receivables—net	**1,230,380**	**1,182,840**	**1,362,525**
Total trade and other receivables	**2,875,755**	**3,027,888**	**3,869,094**

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

14 Trade and Other Receivables (Continued)

As of 31 December 2009, trade receivables of RR 111,184 (2008: RR 126,729; 2007 RR 51,387) and other financial receivables of RR 118,749 (2008: RR 7,822; 2007 RR 12,242) were impaired and provided for. The individually impaired trade and other receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations. Provision for receivable due from customers for construction work in progress of RR 95,560 as of 31 December 2009 relates to one customer, Gazpromstroy LLC, for increased cost of materials used in construction. The Group pursued legal actions against the company but latest court holdings were judged for the defendant.

Advances to suppliers' included advances made for the acquisition of businesses of RR 254,980 as at 31 December 2008 and RR 199,399 as at 31 December 2007. No advances were made as at 31 December 2009 for acquisition of businesses.

As of 31 December 2009, 2008, 2007 VAT recoverable consists mainly of tax charged on advances from customers. This amount will be recovered as goods, work and services are provided in 2010. Also, the VAT amount includes export tax which will reduce the VAT payable to the state budget after confirmation from tax authorities is received in 2010.

	2009		2008		2007	
	Trade receivables	Other receivables	Trade receivables	Other receivables	Trade receivables	Other receivables
Provision of financial assets for impairment at 1 January	**126,729**	**7,822**	**51,387**	**12,242**	**23,036**	**36,735**
Provision for receivables impairment	—	110,927	28,650	—	28,351	—
Unused amounts reversed	(19,459)	—	—	(4,420)	—	(24,493)
Business combinations	3,914	—	46,692	—	—	—
Provision of financial assets for impairment at 31 December	**111,184**	**118,749**	**126,729**	**7,822**	**51,387**	**12,242**

Provision of Non financial assets within other receivables presented below:

	2009	2008	2007
Provision of Non financial assets for impairment at 1 January	**73,979**	**65,515**	**—**
Provision for receivables impairment	—	8,464	65,515
Receivables written off during the year as uncollectible	—	—	—
Unused amounts reversed	(21,909)	—	—
Provision of Non financial assets for impairment at 31 December	**52,070**	**73,979**	**65,515**

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

	31 December 2009	31 December 2008	31 December 2007
RR	1,562,076	1,618,062	1,360,380
USD	52,630	41,523	89,114
EURO	11,151	26,953	991,946
UAH	8,190	152,478	65,129
BYR	11,328	6,032	—
	1,645,375	**1,845,048**	**2,506,569**

15 Other Long-term Receivables

	31 December 2009	31 December 2008	31 December 2007
Long-term loans issued	37	112	34,211
Loan impairment provision	—	—	(5,112)
Long term trade receivables	4,349	—	12,638
Long-term deposits receivable	11,421	—	—
Financial assets within other long-term receivables	**15,807**	**112**	**41,737**
Other non-current assets	17,555	17,173	9,174
	33,362	**17,285**	**50,911**

16 Borrowings

	Interest rate	Denominated in	Maturity	31 December 2009	31 December 2008	31 December 2007
Long-term loan:						
Bonds	9.9%	RR	November 2009	—	153,045	1,009,221
Long-term loan 1	16.75%	RR	August 2012	800,000	—	—
Long-term loan 2	15%	RR	December 2012	500,000	—	—
Long-term loan 3	13%	BYR	January 2010	—	787	
Long-term loan 4	16%	RR	February 2012	873,113	—	1,730
Long-term loan 5	16.77%	RR	April 2014	995,667	—	—
Long-term loan 6	16.77%	RR	May 2014	110,000	—	—
Long-term loan 7	MosPrime+3.5%	RR	December 2011	100,000	—	—
Long-term loan 8	MosPrime+5.35%	RR	December 2011	17,986	—	—
Long-term loan 9	11%	US dollar	September 2009			50,901
				3,396,766	**153,832**	**1,061,852**
Less: short-term portion of loan				—	(153,045)	(1,009,221)
				3,396,766	**787**	**52,631**

In October 2006 one of the Group subsidiaries, HYDROMASHSERVICE CJSC, issued 1,000 thousand non-convertible three-year Russian Rouble denominated bonds (at par value 1,000 roubles each) for RR 1,000,000. The bonds bear interest rate of 9.9% per annum. The interest is payable every nine months. The bonds were repaid at 24 November 2009.

As of 31 December 2009, 2008 and 2007 the fair value of long-term borrowings approximates their carrying amount.

	Interest rate	Denominated in	31 December 2009	31 December 2008	31 December 2007
Short-term unsecured bank loans and borrowings					
Unsecured bank loan 1	15%	RR	1,050,000	2,991,440	1,603,300
Unsecured bank loan 2	MosPrime+4,7%	RR	62,500	500,000	100,000
Unsecured bank loan 3	16,5%	RR	388,121	148,066	—
Unsecured bank loan 4	13–18%	RR	—	45,000	—
Unsecured bank loan 6	LIBOR+8,75%	USD	238,929	—	—
Unsecured loan 5	15,5%	RR	33,000	15,000	—
			1,772,550	**3,699,506**	**1,703,300**

16 Borrowings (Continued)

	Interest rate	Denominated in	31 December 2009	31 December 2008	31 December 2007
Short-term secured bank loans					
Secured bank loan 1	16%	RR	3,230	—	95,000
Secured bank loan 2	16%	RR	40,988	—	9,737
Secured bank loan 3	10,75%	USD	30,299	128,769	47,070
Secured bank loan 4	23%	UAH	11,210	3,470	28,296
Secured bank loan 5	14,5%	UAH	—	3,470	4,674
Secured bank loan 6	23%	RR	10,958	47,034	—
Secured bank loan 7	16,5%	USD	—	13,170	—
Secured bank loan 8	9,5%	EUR	—	10,416	—
Secured bank loan 9	23%	BYR	2,202	9,506	—
Secured bank loan 10	24%	UAH	—	7,731	—
Secured bank loan 11	0%	BYR	—	1,764	—
			98,887	**225,330**	**184,777**
Current portion of long-term loans				153,045	1,009,221
Interest on short-term borrowings			7,337	4,041	1,554
Short-term loans and borrowings			**1,878,774**	**4,081,922**	**2,898,852**

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

	31 December 2009	31 December 2008	31 December 2007
RR	4,991,739	3,903,624	2,820,542
USD	269,895	141,939	97,971
EURO	—	10,416	—
BYR	2,272	12,059	—
UAH	11,634	14,671	32,970
	5,275,540	**4,082,709**	**2,951,483**

As at 31 December 2009 the Group pledged property, plant and equipment and inventories in total amounts of RR 1,009,149 and 527,890 (2008: RR 138,006 and RR 77,991; 2007: RR 192,522 and RR 204,823), 25% and one share of Neftemash OJSC, pledge of property rights with pledge value RR 410,570 respectively, as a security for borrowings.

As of 31 December 2009, 2008 and 2007 the fair value of short-term borrowings approximate their carrying amount.

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

17 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 22.1% in 2009 (2008: 22.7%; 2007: 22.7%) and are effectively collateralized by the leased assets, as the assets revert to the lessor in the event of default.

	Minimum lease payments as at 31 December			Discounted value of minimum lease payments as at 31 December		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
Finance lease payable:						
Not later than 1 year	16,512	27,022	35,832	13,094	19,776	22,816
Later than 1 year and not later than 5 years	9,225	25,932	52,762	8,479	21,767	41,388
Total	**25,737**	**52,954**	**88,594**	**21,573**	**41,543**	**64,204**
Future finance charges on finance lease	(4,164)	(11,411)	(24,390)	—	—	—
Present value of liabilities	**21,573**	**41,543**	**64,204**	**21,573**	**41,543**	**64,204**
Short-term finance lease liabilities	**—**	**—**	**—**	**13,094**	**19,776**	**22,816**
Long-term finance lease liabilities	**—**	**—**	**—**	**8,479**	**21,767**	**41,388**

18 Retirement Benefit Obligations

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

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

The following assumptions were used for the actuarial assessment as of 31 December 2009, 2008 and 2007:

	2009	**2008**	**2007**
Discount rate	9%	9%	6.8%
Inflation	6,5%	7%	6%
Expected annual increase in salaries	7.5%	7.5%	9%
Mortality	USSR, 1985-1986	USSR, 1985-1986	USSR, 1985-1986

The following amounts were recognized in the profit or loss:

	Year ended 31 December 2009	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Current service cost	12,378	16,673	3,220
Interest cost	17,113	10,861	7,820
Past service cost	(194)	18,872	—
Net actuarial (gain)/loss recognised during the year	(11,624)	(21,605)	34,090
Net periodic benefit cost	**17,673**	**24,801**	**45,130**

Expenses relating to this plan were recognized in the general and administrative expenses.

18 Retirement Benefit Obligations (Continued)

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

	31 December 2009	31 December 2008	31 December 2007
Present value of defined benefit obligations	145,319	149,754	129,952
Unrecognised actuarial (gains)/losses	—	—	—
Unrecognised past service cost	1,010	(11,614)	—
Liability in the statement of financial position	**146,329**	**138,140**	**129,952**

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

	31 December 2009	31 December 2008	31 December 2007
Present value of defined benefit obligations at the beginning of the year	149,754	129,952	90,292
Current service cost	12,378	16,673	3,220
Interest expense	17,114	10,861	7,820
Actuarial (gains)/losses	(11,625)	(21,605)	34,090
Benefits paid	(9,849)	(7,619)	(5,470)
Exchange adjustments	(2,853)	(13,907)	—
Liabilities acquired in a business combination	3,218	4,913	—
Past service cost	(12,818)	30,486	—
Present value of defined benefit obligations as at the end of year	**145,319**	**149,754**	**129,952**

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

	31 December 2009	31 December 2008	31 December 2007
Short-term	20,922	17,242	11,676
Long-term	125,407	120,898	118,276
Discounted value of defined benefit obligations as at the end of year	**146,329**	**138,140**	**129,952**

The expected contributions under voluntary pension programs in 2010 are expected in the amount close to RR 11,129.

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007
Defined benefit obligation	145,319	149,754	129,952
Plan assets	—	—	—
Deficit/surplus	145,319	149,754	129,952
Experience adjustments on plan liabilities	(8,521)	(14,114)	30,830
Experience adjustments on plan assets	—	—	—

19 Construction Contracts

During 2009 and 2008, 2007 the construction contracts revenue was recognized in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the

19 Construction Contracts (Continued)

proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures represented below related to Groups' subsidiaries performed activities under construction contracts:

	2009	2008	2007
Construction contracts revenue	4,182,873	4,825,847	3,150,626
Contract cost expensed	(3,834,804)	(4,296,536)	(2,876,204)
Gross margin	**348,069**	**529,311**	**274,422**

	2009	2008	2007
Advances, received for construction contracts	140,738	209,294	326,640
Retentions	44,471	35,299	61,739

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

	31 December 2009	31 December 2008	31 December 2007
Aggregate amount of contract cost incurred	2,569,400	2,533,515	1,323,516
Aggregate amount of recognized profits	134,279	316,881	120,407
Aggregate amount of recognized losses	(1,097)	—	—
Less: Progress billings	(2,548,194)	(2,638,775)	(1,383,696)
Gross amount due from customers for contract work	**154,388**	**211,621**	**60,227**

	31 December 2009	31 December 2008	31 December 2007
Aggregate amount of contract cost incurred	1,206,334	339,059	2,161,863
Aggregate amount of recognized profits	298,218	104,236	358,378
Aggregate amount of recognized losses	(2,633)	—	(10,123)
Less: Progress billings	(1,665,390)	(491,335)	(2,690,073)
Gross amount due to customers for contract work	**(163,471)**	**(48,040)**	**(179,955)**

Amounts due to and due from customers are disclosed in Notes 14 and 23.

20 Long-term Payables

	31 December 2009	31 December 2008	31 December 2007
Other long-term payables	—	—	13,702
Long-term advances from customers	—	—	1,236
Total long-term payables		**—**	**14,938**

21 Provisions for Liabilities and Charges

	Short-term part of Warranty provision	Long-term part of Warranty provision	Provision for legal claims	Unused vacation allowance
31 December 2006	**2,839**	**—**	**2,342**	**32,470**
Additional provisions	11,817	—	1,266	71,520
31 December 2007	**14,656**	**—**	**3,608**	**103,990**
Additional provisions	12,455	—	19,034	46,316
Unused amounts reversed	—	—	(723)	—
31 December 2008	**27,111**	**—**	**21,919**	**150,306**
Additional provisions	6,600	11,550	17,242	—
Unused amounts reversed	—	—	(3,587)	(10,084)
Business combinations	60	—	179	—
31 December 2009	**33,771**	**11,550**	**35,753**	**140,222**

Warranty. The Group provides warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 45,321 has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and returns.

Legal claims. The main part of provision for legal claims relates to claims brought against the Group by "Uralteploisoliatsiya" LLC relating to collection of debt for executed work. The balance at 31 December 2009 is expected to be utilised by the end of 2010. In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

Provision for uncertain tax positions. Management has assessed, based on its interpretation of the relevant tax legislation, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, the Group recognized provisions for the associated undeclared taxes and the related penalties and interest. The balance at 31 December 2009 is expected to be either fully utilised or released by the end of 2011 when the inspection rights of the tax authorities with respect to the relevant tax returns expire.

22 Other Taxes Payable

	31 December 2009	31 December 2008	31 December 2007
Value added tax	207,737	247,927	109,036
Personal income tax	24,291	27,294	24,819
Unified social tax	42,532	30,689	35,660
Property tax	11,514	8,049	4,880
Transport tax	2,595	1,639	1,484
Land tax	2,039	1,749	1,100
Water tax	72	41	1,044
Other taxes	2,484	2,706	3,646
Total other taxes payable	**293,264**	**320,094**	**181,669**

23 Trade and Other Payables

	2009	2008	2007
Trade payables	1,264,490	947,258	2,137,632
Other payables	58,110	125,441	90,383
Financial liabilities within trade and other payables	**1,322,600**	**1,072,699**	**2,228,015**
Advances from customers	1,561,765	1,938,074	1,143,941
Payables due to customers for construction work in progress (Note 18)	163,471	48,040	179,955
Wages and salaries payable	207,654	180,046	196,744
Other non-financial payables	**1,932,890**	**2,166,160**	**1,520,640**
Total trade and other payables	**3,255,490**	**3,238,859**	**3,748,655**

24 Share Capital and Earnings per Share

The nominal registered amount of the Company's share capital at 31 December 2009 is RR 591,180 (2008: RR 591,180). At 31 December 2007 the charter capital of the Company consisted of registered, issued and fully paid participant's units for the total par value of RR 218,080. The total authorised number of ordinary shares is 1,182,360,600 (2008: 1,182,360,600) ordinary shares of RR 0.5 par value each.

As at 31 December 2007 the Company was a limited liability company. For such companies, voting rights of participants are determined by their percentage participation in the registered charter capital. Each participant had a right to request that the Company redeems his interest. In accordance with the Company's Charter a participant's share upon withdrawing his interest shall be assessed as a share of the Company's net assets calculated based on the statutory accounting reports for the year in which a participant withdraws his interest. As at 31 December 2007, the net assets of the Company under Russian statutory accounting reports were RR 269,909 and no participants asked the Company for redemption. The Company's Charter established annual profit distribution pro rata to the participant's interest based on the statutory accounting reports of the Company.

On 29 August 2008 the Company changed its legal form from a limited liability company to an open joint stock company named HMS Group OJSC. The interests held by the Company's participants of RR 591,180 exchanged to 1,182,360,600 ordinary shares of RR 0.5 par value each, and the ownership ratios of the participants remained intact. As a result, the Company's equity participants no longer have a right to request redemption of their interests in the Company.

At the end of 2008 the shareholders of the Company transferred some of their ownership interest in the Company into HMS-Holding LLC. As a result of these transactions, HMS-Holding LLC obtained 68.82% interest in the Company. However, the effective ownership interest of shareholders of the Company remained intact.At 31 December 2008 the retained earnings and other reserves also include a revaluation gain of RR 37,035 resulting from fair value adjustment to the assets and liabilities in the previously held interest of Promburvod Plant OJSC following the acquisition in December 2008.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2009, the current year net statutory income for the Company as reported in the published annual statutory reporting forms was RR 12,240 (2008: loss of RR 5,209; 2007: income of RR 4,099). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

During 2009, dividends were accrued only to the holders of preference shares in the subsidiaries reflected in the amount of RR 160,009 (2008: RR 291,726 for the whole year; 2007: RR 221,690 for the whole year),

24 Share Capital and Earnings per Share (Continued)

but no dividends were paid to shareholders or minority holders of common shares. As a result, allocations of net assets to minority holders of preference shares and common shares were reflected in these consolidated financial statements.

Earnings per share

The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equal the basic earnings per share. Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

Loss for the year from continuing operations attributable to ordinary shareholders is calculated as follows:

	2009	2008
Loss for the year from operations attributable to ordinary shareholders	(18,768)	(24,740)
Weighted average number of ordinary shares in issue (thousands)	1,182,360.6	1,182,360.6
Basic and diluted earnings per ordinary share (expressed in RR per share)	(0.016)	(0.021)

25 Net Assets Attributable to Participants

As at 31 December 2007 there were three participants in the Company:

Participant	Ownership, %	Amount, RR'000
Hydroindustry LLC	42.5	92,684
Hydromashinvest LLC	42.5	92,684
Promhydroservice LLC	15	32,712
	100	**218,080**

In May 2008 the participants of the Company increased the charter capital from RR 218,080 to RR 591,180 through making capital contribution of 100% of shares of Hydromashkomplekt LLC with its 100% subsidiary Business Center HYDROMASH LLC to the Group. The principal contributed assets are the office buildings own by the contributed entities and occupied by the Company. The contributed fair value of net assets was allocated according to the ownership ratios of the participants, which remained intact. The difference between the fair value of assets contributed and notional amount of an increase in charter capital is recorded in other reserves.

25 Net Assets Attributable to Participants (Continued)

The summary of assets and liabilities contributed are as follows:

	Hydromashkomplekt LLC	Business-Centre Hydromash LLC	Total
	Attributed fair value	Attributed fair value	Attributed fair value
Cash and cash equivalents	23,355	193	23,548
Property, plant and equipment	86,558	353,237	439,795
Intangible assets	10	—	10
Deferred tax assets	—	—	—
Other non-current assets	39	—	39
Trade and other receivables	23,176	29,080	52,256
Inventories	108	55	163
Borrowings	—	(55,621)	(55,621)
Trade and other payables	(76,431)	(1,163)	(77,594)
Other taxes payable	(346)	(69)	(415)
Deferred tax liability	(19,736)	(53,214)	(72,950)
Fair value of net assets	**36,733**	**272,498**	**309,231**

As discussed in Note 3, until 29 August 2008, the Company's equity participants had a right to request redemption of their interests in the Company in cash. The Company's obligation to redeem gave rise to a financial liability for the present value of the redemption amount even though the obligation was conditional on the equity participant exercising the right. The redemption amount was variable and depended on the Company's net assets determined in accordance with the Russian Accounting Regulations. As a practical expedient the Company measured the liability presented as 'Net assets attributable to the Company's participants' at the carrying values of net assets that were or could have been distributable to participants, determined in accordance with the Russian Accounting Regulations for the

25 Net Assets Attributable to Participants (Continued)

Company or determined in accordance with IFRS for the Group, whichever were higher. The changes in the net assets attributable to the Company's participants were the following:

	Paid-in capital	Other reserves	Cumulative currency translation reserve attributable to participants of the Company	Cumulative surplus of net assets attributable to participants of the Company
Balance at 1 January 2007	**218,080**	**—**	**(20,364)**	**1,188,547**
Entitlement of participants in respect of their interest in the Company	—	—	—	372,430
Other changes in net assets:				
—Change in cumulative currency translation reserve	—	—	(14,460)	—
—Acquisition of minority interest in the subsidiaries	—	—	—	187,418
—Allocation of net assets to minority holders of the Group's subsidiaries	—	—	—	(175,089)
Balance as at 31 December 2007	**218,080**	**—**	**(34,824)**	**1,573,306**
Entitlement of participants in respect of their interest in the Company	—	—	—	281,927
Other changes in net assets:				
—Change in cumulative currency translation reserve	—	—	4,462	—
—Additional contribution	373,100	(63,869)	—	—
—Acquisition of minority interest in the subsidiaries	—	—	—	54,913
—Allocation of net assets to minority holders of the Group's subsidiaries	—	—	—	(201,637)
—Effect of change in the Company's legal form (Note 1)	(591,180)	63,869	30,362	(1,708,509)
Balance as at 29 August 2008	**—**	**—**	**—**	**—**

26 Income Taxes

The Group income tax charges were as follows:

	31 December 2009	31 December 2008	31 December 2007
Current tax	270,277	329,148	324,654
Deferred tax	(58,512)	(94,542)	(147,964)
Effect of the change in the tax rate	—	(30,191)	—
Total income tax charge	**211,765**	**204,415**	**176,690**

26 Income Taxes (Continued)

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

	31 December 2009	31 December 2008	31 December 2007
Income before tax	**294,915**	**533,976**	**667,872**
Estimated tax charge at statutory rate of 20% (2008: 24%; 2007: 24%)	(58,983)	(128,154)	(160,289)
Effect of different tax rates in other jurisdictions	(16,888)	2,047	(83)
Tax effect of items which are not deductible or assessable for taxation purposes:			
Non-deductible social expenditures	(15,614)	(36,030)	(11,987)
Non-deductible pension costs	(6,913)	(4,960)	(10,831)
Non-deductible depreciation	(117)	(3,882)	(2,695)
Non-deductible participation in associates	1,562	—	—
Effect of adjustment resulting from intra-group sales of subsidiaries	(31,603)	—	—
Impairment of goodwill	(23,400)	—	—
Other non-deductible expenses	(59,809)	(63,456)	9,195
Effect of the change in the tax rate	—	30,020	—
Income tax charge	**(211,765)**	**(204,415)**	**(176,690)**

Differences between IFRS and local tax legislation give rise to temporary differences between the carrying value of assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the rate of 20% (Russian tax legislation), 25% (Ukrainian tax legislation) and 24% (Belorussia tax legislation), accordingly. With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian changed from 24% to 20%, consequently, deferred tax assets/liabilities are measured at the rate of 20% as at 31 December 2009 and 2008 and 24% as at 31 December 2007.

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

Deferred tax assets:

	31 December 2009	31 December 2008	31 December 2007
Deferred tax assets to be recovered within 12 months	—	31,181	47,415
Deferred tax assets to be recovered after more than 12 months	53,989	9,819	10,296
Total deferred tax asset	**53,989**	**41,000**	**57,711**

Deferred tax liabilities:

	31 December 2009	31 December 2008	31 December 2007
Deferred tax liabilities to be settled within 12 months	—	—	—
Deferred tax liabilities to be settled after more than 12 months	(197,307)	(231,447)	(237,553)
Total deferred tax liabilities	**(197,307)**	**(231,447)**	**(237,553)**
Deferred tax liabilities (net)	**(143,318)**	**(190,447)**	**(179,842)**

26 Income Taxes (Continued)

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

	1 January 2009	Credited/ (charged) to profit or loss	Acquisitions (Note 10)	Translation differences recognized in equity	31 December 2009
Deferred tax liabilities					
Property, plant and equipment	(315,869)	8,784	(18,061)	4,757	(320,389)
Intangible assets	(10,885)	4,257	(478)	427	(6,679)
Short-term trade receivables	(10,577)	10,577	—	—	—
Cash and cash equivalents	(2,451)	2,451	—	—	—
Long-term trade receivables	(86)	86	—	—	—
Finance lease liability	(541)	324	—	—	(217)
Short-term borrowings	(36)	15	—	—	(21)
Share of results of associates	—	(1,562)	—	—	(1,562)
Other taxes payable	—	(1,065)	—	—	(1,065)
	(340,445)	**23,867**	**(18,539)**	**5,184**	**(329,933)**
Deferred tax assets					
Inventory	6,229	27,113	(714)	(274)	32,354
Short-term trade receivables	—	20,634	2,509	280	23,423
Other current assets	1,100	3,227	(5)	—	4,322
Long-term trade receivables	—	—	—	—	—
Other non-current assets	649	(6)	—	—	643
Long-term liabilities	5,214	(5,214)	—	—	—
Long-term provisions	8,677	9,607	49	(8)	18,325
Losses of last year	19,953	(1,184)	—	—	18,769
Trade and other payables	77,452	(10,414)	—	(10)	67,028
Other taxes payable	5,278	(5,278)	—	—	—
Short-term provisions	25,446	(3,840)	255	(110)	21,751
	149,998	**34,645**	**2,094**	**(122)**	**186,615**
Total net deferred tax liability	**(190,447)**	**58,512**	**(16,445)**	**5,062**	**(143,318)**

26 Income Taxes (Continued)

	1 January 2008	Credited/ (charged) to profit or loss	Acquisitions (Note 10, 25)	Change in income tax rate recognized in profit and loss	31 December 2008
Deferred tax liabilities					
Property, plant and equipment	(273,926)	40,119	(135,789)	53,727	(315,869)
Intangible assets	(10,405)	7,151	(8,298)	667	(10,885)
Short-term trade receivables	—	(12,695)	881	1,237	(10,577)
Inventory	(24,226)	24,225	—	—	—
Cash and cash equivalents	—	(2,451)	—	—	(2,451)
Long-term trade receivables	—	(104)	—	18	(86)
Finance lease liability	—	330	—	(871)	(541)
Long-term borrowings	(9)	9	—	—	—
Short-term borrowings	(9)	(23)	—	(4)	(36)
	(308,575)	**56,562**	**(143,206)**	**54,774**	**(340,445)**
Deferred tax assets					
Inventory	—	8,505	1,818	(4,094)	6,229
Short-term trade receivables	9,786	(9,786)	—	—	—
Other current assets	9,409	(8,092)	—	(217)	1,100
Long-term trade receivables	2,108	(2,108)	—	—	—
Other non-current assets	215	690	—	(256)	649
Long-term liabilities	8,900	(3,686)	—	—	5,214
Long-term provisions	3,215	6,446	37	(1,021)	8,677
Losses of last year	—	23,943	—	(3,990)	19,953
Trade and other payables	77,372	4,561	4,781	(9,262)	77,452
Other taxes payable	155	6,023	—	(900)	5,278
Short-term provisions	17,573	11,484	1,232	(4,843)	25,446
	128,733	**37,980**	**7,868**	**(24,583)**	**149,998**
Total net deferred tax liability	**(179,842)**	**94,542**	**(135,338)**	**30,191**	**(190,447)**

26 Income Taxes (Continued)

	1 January 2007	Credited/ (charged) to profit or loss	Acquisitions (Note 10)	31 December 2007
Deferred tax liabilities				
Property, plant and equipment	(246,186)	86,960	(114,700)	(273,926)
Intangible assets	(2,249)	(7,380)	(776)	(10,405)
Inventory	(42,905)	28,967	(10,288)	(24,226)
Other current assets	(3,660)	3,660	—	—
Long-term borrowings	(1,141)	1,132	—	(9)
Short-term borrowings	—	(9)	—	(9)
	(296,141)	**113,330**	**(125,764)**	**(308,575)**
Deferred tax assets				
Short-term trade receivables	27,493	(20,125)	2,418	9,786
Other current assets	2,209	7,200	—	9,409
Long-term trade receivables	—	1,919	189	2,108
Other non-current assets	—	134	81	215
Long-term liabilities	—	(1,483)	10,383	8,900
Long-term provisions	—	3,215	—	3,215
Short-term borrowings	702	(702)	—	—
Trade and other payables	5,833	27,638	43,901	77,372
Other taxes payable	—	155	—	155
Short-term provisions	—	16,683	890	17,573
	36,237	**34,634**	**57,862**	**128,733**
Total net deferred tax liability	**(259,904)**	**147,964**	**(67,902)**	**(179,842)**

The Group has not recognised a deferred tax liability in respect of temporary differences of RR 1,036,085 thousand (2008: RR 1,368,727; 2007 RR 1,477,677 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

27 Revenues

	2009	2008	2007
Revenue from construction contracts	4,182,873	4,825,847	3,150,626
Sales of pumps and spare parts	5,947,107	4,786,136	4,499,742
Sales of oilfield equipment	3,391,206	3,312,964	2,747,003
Sales of repair services for oil-field equipment	704,600	790,553	753,446
Sales of engines	151,327	280,726	413,075
Sales of products, work and services of auxiliary units	43,763	87,839	182,889
Sales of special equipment	—	(597,750)*	988,951
Sales of other services and goods	351,393	559,930	663,624
	14,772,269	**14,046,245**	**13,399,356**

* The reversal of RR 597,750 thousand represent the delivery of hydraulic equipment made to a large foreign customer in 2007 and subsequently returned by the customer in 2008.

28 Cost of Sales

	2009	2008	2007
Supplies and raw materials	6,186,920	5,533,731	5,378,097
Labour costs	1,798,137	1,974,701	1,567,194
Cost of goods sold	1,721,021	1,365,668	2,605,599
Construction and installation works of subcontractors	430,258	971,905	470,692
Depreciation and amortization	259,435	256,542	210,677
Utilities	168,019	142,926	122,484
Inventory impairment provision	95,949	56,993	48,383
Warranty provision	18,150	12,455	11,817
Impairment of property, plant and equipment and intangible assets	13,848	—	—
Change in work in progress and finished goods	(44,516)	(268,542)	(250,356)
Other expenses	516,981	726,310	642,414
	11,164,202	**10,772,689**	**10,807,001**

29 Distribution and Transportation Expenses

	2009	2008	2007
Labour costs	196,185	164,457	122,082
Transport expenses	124,875	142,517	115,529
Packaging expenses	24,832	37,660	11,292
Entertaining costs and business trip expenses	22,341	26,456	23,279
Insurance	14,831	18,594	23,759
Customs duties	13,933	9,930	3,491
Advertising	13,344	18,221	9,761
Depreciation and amortization	11,251	37,452	33,981
Lease	9,469	16,066	17,905
Capital assets repair and maintenance	3,855	3,953	2,442
Agency services	3,542	2,049	—
Products certification	2,652	2,239	1,914
Other expenses	41,466	37,899	34,190
	482,576	**517,493**	**399,625**

30 General and Administrative Expenses

	2009	2008	2007
Labour costs	1,089,996	964,569	702,737
Audit and consultancy services	102,962	119,324	49,664
Taxes and duties	74,142	79,607	79,873
Depreciation and amortization	72,203	50,044	30,753
Provision for impairment of accounts receivable	69,559	32,694	69,373
Stationary and office maintenance	45,978	70,973	53,189
Bank services	38,631	35,207	19,261
Entertaining costs and business trip expenses	33,540	47,096	26,011
Property, plant and equipment repair and maintenance	32,411	29,293	13,486
Security	31,285	26,130	16,248
Provision for VAT receivable	29,918	826	—
Telecommunications services	25,877	26,813	15,084
Insurance	18,886	22,662	15,333
Defined benefits scheme expenses	17,672	24,801	45,130
Rent	16,614	24,788	2,358
Provisions for legal claims	13,655	18,311	1,266
Training and recruitment	9,409	10,178	9,524
Other expenses	103,681	70,067	78,881
	1,826,419	**1,653,383**	**1,228,171**

31 Other Operating Expenses, Net

	2009	2008	2007
Charity, social expenditures	56,109	73,245	52,726
Foreign exchange loss, (net)	19,413	14,388	(4,422)
Fines and late payment interest under contracts	8,047	9,956	2,735
Gain on sales and other disposal of property, plant and equipment and intangible assets	2,305	30,382	27,273
Depreciation of social assets	1,099	3,790	1,761
(Income)/expenses on transactions with securities	283	(5,466)	1,839
(Gain)/loss on disposal of subsidiaries	—	(6,208)	2,592
Investments impairment provision reverse	—	(5,195)	(1,352)
Dividend income	—	—	(9)
Loss on sales of inventories	(3,442)	20,833	2,702
Other expenses	13,822	54,462	14,927
	97,636	**190,187**	**100,772**

32 Finance Income

	2009	2008	2007
Interest income	54,408	26,450	35,053
Foreign exchange income (net)	4,016	—	—
	58,424	**26,450**	**35,053**

33 Finance Costs

	2009	2008	2007
Interest expenses	857,895	400,911	214,693
Foreign exchange loss (net)	—	74,348	24,398
Finance lease expenses	7,245	13,079	9,974
Other expenses	—	31	32
	865,140	**488,369**	**249,097**

34 Balances and Transactions with Related Parties

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

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

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category comprises ultimate shareholders of participants and other parties over which the Group exercised significant influence:

		31 December 2009		
Balances with related parties	**Note**	**Participant**	**Associates**	**Other**
Loans issued	14	95,074	—	—
Trade and other accounts receivable	14	—	6,637	—
Accounts payable	23	—	12,236	36,913

		31 December 2008		
Balances with related parties	**Note**	**Participant**	**Associates**	**Other**
Loans issued	14	75,160	—	—
Trade and other accounts receivable	14	1,359	368	5,064
Accounts payable	23	—	2,768	3,031

		31 December 2007		
Balances with related parties	**Note**	**Participant**	**Associates**	**Other**
Loans issued	14	—	—	30,220
Trade and other accounts receivable	14	—	5,672	10,502
Accounts payable	23	—	4,379	34,407

No provision was made for accounts receivable from related parties.

34 Balances and Transactions with Related Parties (Continued)

Neither party issued guaranties to secure accounts receivable or payable.

	Year ended 31 December 2009		
Income/expenses on transactions with related parties	**Participant**	**Associates**	**Other**
Sales of goods and finished products	—	2,643	33,145
Sales of services	—	13	158
Purchase of services	—	(40,309)	—
Purchase of goods	—	(34,200)	—
Purchase of raw and materials	—	(27,181)	—
Interest income	11,620	—	—
Lease	—	(25)	(128)

	Year ended 31 December 2008		
Income/expenses on transactions with related parties	**Participant**	**Associates**	**Other**
Sales of goods and finished products	—	1,947	431
Sales of services	—	3,943	—
Purchase of services	—	(4,609)	(526)
Purchase of goods	—	(112,175)	(48,670)
Interest income	8,916	—	—
Lease	—	—	(40)

	Year ended 31 December 2007		
Income/expenses on transactions with related parties	**Participant**	**Associates**	**Other**
Sales of goods and finished products	—	1,186	1,189
Sales of services	—	—	1,802
Purchase of services	—	(34,036)	(662)
Purchase of goods	—	(9,756)	(77,162)
Interest income	—	—	541
Lease	(9,801)	—	(20)

In 2009, the Group extended maturity dates for previously issued short term loans and additionally issued short term loans to related parties for a total of RR 1,100 with a weighted average interest rate of 14% (2008: RR 75,160; 2007: RR 24,500).

In 2009, preference dividends of RR 150,020 were accrued and paid by the Company's subsidiaries to the minority holders who are the ultimate shareholders of the Group (2008: RR 214,098; 2007: RR 200,076).

Key management compensation

Key management compensation amounted to RR 134,506 for the year ended 31 December 2009 (2008: RR 92,357; 2007: RR 66,245) and includes short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

35 Contingencies and Commitments

(i) Legal proceeding

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

35 Contingencies and Commitments (Continued)

(ii) Tax legislation

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

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

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

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

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

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

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

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks as of 31 December 2009 of RR 1,975 (2008: RR 25,260; 2007: no such obligations). These exposures primarily relate to bonuses to employees and return of goods.

35 Contingencies and Commitments (Continued)

(iii) Environmental matters

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

(iv) Insurance policies

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

(v) Contractual commitments

As at 31 December 2009 the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 33,168 (2008: RR 54,174; 2007: RR 85,162).

By 30 August 2010 the Group is due to pledge non-current assets with a pledge value RR 1,490,000, 43% of Tomskgazstroy OJSC shares, 49% of Trest Sibkomplektmontaghnaladka OJSC shares, 95.38% of EPF SIBNA Inc. JSC shares, 100% of Nizhnevartovskremservis CJSC shares, 40% of Dimitrovgradkhimmash OJSC shares as a security for long-term borrowings. Up to the date of these financial statements, the Group has not concluded pledge agreements except for the pledge of 30% of Dimitrovgradkhimmash OJSC shares (Note 38).

The Group holds short term cancellable and non cancellable operating leases. The future commitments of the non cancellable leases are not material and therefore management do not consider that disclosure is required.

(vi) Compliance with covenants

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

During the year and as at 31 December 2009 the Group was not in compliance with certain covenants of the bank loans, including covenants which require the Group to maintain its net assets at certain level, and certain other requirements. Due to the breach of these covenants, the banks are contractually entitled to request early repayment of the outstanding amounts of RR 650,000 (2008: RR 362,412; 2007:0), including bank loans of RR 650,000 (2008: RR 362,412; 2007: 0) with original maturities of less than twelve months after the statement of financial position date.

None of the bank loans where the breach of loan covenants existed at 31 December 2009 has been called by the lender either at 31 December 2009 or during the subsequent period through to the date of these consolidated financial statements.

Subsequent to the year end, the maturity of loan agreement in the amount of RR 214,150 was extended till 31 December 2010. The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid further breaches of covenants and ensure future compliance with the terms of the loan agreements.

36 Segment Information

The Group early adopted *IFRS 8, Operating Segments,* beginning from 2007. Management has determined the operating segments based on the management reports, which are primarily derived from unaudited IFRS financial statements. Before 2009, management determined the operating segments based on the management reports, which were primarily derived from statutory records and regularly reconciled to IFRS financial statements. Starting from 2009 no management reports derived from statutory records are available. The management reports are reviewed by the chief operating decision-maker that is used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

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

Management considers the business from both a geographical and product perspective.

The first operating segment "Industrial pumps" includes:

	2009	2008	2007
1	Livhydromash OJSC	Livhydromash OJSC	Livhydromash OJSC
2	LPKC LLC	LPKC LLC	LPKC LLC
3	Electrodvigatel OJSC	Electrodvigatel OJSC	Electrodvigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	TD Sumskie nasosy LLC
8	SPA Gydromash CJSC	SPA Gydromash CJSC	
9	Hydromash-Industria LLC	Hydromash-Industria LLC	
10	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC	
11	Promburvod Plant OJSC	Promburvod Plant OJSC	
12	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC	
13	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC

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

1	Neftemash OJSC	Neftemash OJSC	Neftemash OJSC
2	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
3	EPF SIBNA Inc. JSC	HYDROMASHINPROM CJSC	
4	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
5	SPA Gydromash CJSC		

36 Segment Information (Continued)

The third operating segment "Oil and gas construction" includes:

1	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC
2	Tomskgazstroy OJSC	Tomskgazstroy OJSC	Tomskgazstroy OJSC Otdelochnik Tomskgazstroy LLC

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

1	Hydraulic Machines and Systems Management LLC	Hydraulic Machines and Systems Management LLC	Hydraulic Machines and Systems Management LLC
2	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)	Hydraulic Machines and Systems Group LLC
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	Sibservice LLC (no business)	United Industrial Group LLC (no business)	United Industrial Group LLC (no business)
5	Hydromashkomplekt LLC	Sibservice LLC (no business)	Sibservis LLC (no business)
6	Business Centre Hydromash LLC	Hydromashkomplekt LLC	
7	HMS-Promburvod CJSC	Business Centre Hydromash LLC	
8		HMS-Promburvod CJSC	

List of associates with the breakdown by operating segments:

The first operating segment "Industrial pumps" includes:

	2009	2008	2007
1	VNIIAEN OJSC	VNIIAEN OJSC	VNIIAEN OJSC
2			Promburvod Plant OJSC
3		Vodokanalproektirovanie LLC	

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

	2009	2008	2007
1	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC	Dimitrovgradkhimmash OJSC
2		EPF SIBNA Inc. JSC	

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

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

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

Starting from 2009 management assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Before 2009 management assessed the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the statutory accounting records. In these consolidated financial statements comparatives for the year ended 31 December 2008 and 2007 are not restated, and consequently, are not comparable with the amounts for the year ended 31 December 2009.

36 Segment Information (Continued)

For this purpose EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortization, inventory impairment provisions, provision for impairment of accounts receivable, unused vacation allowance, excess of fair value of net assets acquired over the cost of acquisition.

This measurement basis excludes the effects on non-recurring expenditure from the operating segments, such as restructuring costs, legal expenses and goodwill impairments, when the impairment is a result of an isolated, non-recurring event.

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

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

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other	Total
Revenue External, Management Report	6,143,653	4,180,065	4,105,031	245,342	**14,674,091**
Revenue Internal, Management Report	82,774	59,974	—	512,939	**655,687**
EBITDA	1,046,542	768,003	(1,409)	1,681	**1,814,817**
Depreciation and amortization	(114,188)	(75,668)	(119,784)	(25,868)	**(335,508)**
Finance income	104,101	154,345	452	7,274	**266,172**
Finance cost	(519,333)	(357,937)	(150,460)	(52,734)	**(1,080,464)**
Income tax charge	(151,014)	(84,115)	27,434	(3,320)	**(211,015)**
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method	(6,711)	39,385	—	—	**32,674**

The Group has decided to early adopt improvements to IFRS 8 issued in April 2009, which allows the Group not to disclose information about segment assets and liabilities in these consolidated financial statements, since such information is not regularly provided to the CODM (Note 4).

36 Segment Information (Continued)

Reconciliation of financial information analysed by CODM to corresponding information presented in consolidated FS prepared under IFRS is provided as follows:

	Year ended 31 December 2009
Total revenues for reportable segments	15,329,778
Less intersegment revenue	(655,687)
Adjustments related to construction contracts revenue	95,560
Other adjustments	2,618
Total Entity's revenue	14,772,269
EBITDA, management report	1,814,817
Adjustments related to revenue from construction contracts	95,560
Other adjustments	(19,969)
EBITDA, adjusted	1,890,408
Depreciation and amortization	(343,987)
Non-monetary items*	(234,217)
Other income and expense	(227,766)
Operating Profit	1,084,438
Finance Income	58,424
Finance Cost	(865,140)
Share of results associates	17,193
Profit before Income Tax, IFRS	294,915

* Non-monetary items consists of provisions: Inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, etc.

	Year ended 31 December 2009
Depreciation and amortization, management report	(335,508)
Adjustments on additional depreciation	(8,481)
Depreciation and amortization, IFRS	(343,987)
Finance income, management report	266,172
Intercompany eliminations	(215,575)
Adjustments on reclassifications of foreign exchange differences	7,827
Finance Income, IFRS	58,424

36 Segment Information (Continued)

	Year ended 31 December 2009
Finance cost, management report	(1,080,464)
Intercompany eliminations	215,575
Other adjustments	(251)
Finance Expenses, IFRS	(865,140)
Income tax charge, management report	(211,015)
Other adjustments	(750)
Income tax charge, IFRS	(211,765)
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, management report	32,674
Adjustments related to revaluation of net assets of associates	(15,481)
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	17,193

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2008 is as follows:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other	Total
Revenue, RSA	7,218,201	4,510,034	5,450,769	655,718	**17,834,722**
EBITDA	822,030	528,762	254,794	68,463	**1,643,861***
Depreciation and amortization, RSA	(63,227)	(44,541)	(82,360)	(5,185)	**(195,313)**
Finance income, RSA	47,516	18,464	386	4,638	**71,004**
Finance cost, RSA	(292,111)	(79,905)	(48,366)	(25,671)	**(446,053)**
Income tax charge, IFRS	(106,866)	(90,892)	(46,994)	28,416	**(204,415)****
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	21,620	27,824	—	—	**49,444**

* The sum of EBITDA by segment is less than Total by RR 30,188 due to elimination of transaction between operating segments.

** The sum of Income Tax charge by segment is less than Total by RR 11,921 due to elimination of transaction between operating segments.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2007 is as follows:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other	Total
Revenue, RSA	8,040,910	3,817,413	3,555,879	310,297	**15,724,499**
EBITDA	685,861	501,103	248,738	(10,511)	**1,423,168***
Depreciation and amortization, RSA	(41,611)	(37,291)	(39,190)	(2,785)	**(120,877)**
Finance income, RSA	4,903	287	2,149	265	**7,604**
Finance cost, RSA	(168,138)	(37,066)	(35,564)	(22)	**(240,790)**
Income tax charge, IFRS	(85,172)	(76,680)	(43,692)	28,854	**(176,690)**
Aggregate share in net profit of associates recorded in consolidated accounts based on equity method, IFRS	9,154	8,975	—	—	**18,129**

* The sum of EBITDA by segment is less than Total by RR 2,023 due to elimination of transaction between operating segments.

36 Segment Information (Continued)

Reconciliation of financial information analysed by CODM to corresponding information presented in consolidated FS prepared under IFRS is provided as follows:

Description	Year ended 31 December 2008	Year ended 31 December 2007
EBITDA	**1,643,861**	**1,423,168**
Depreciation and amortization	(347,828)	(277,172)
Non-monetary items*	(193,353)	(181,437)
Excess of fair value of net assets acquired over the cost of acquisition	33,958	—
Other income and expense	(190,187)	(100,772)
Operating Profit	**946,451**	**863,787**
Finance Income	26,450	35,053
Finance Cost	(488,369)	(249,097)
Share of results associates	49,444	18,129
Profit/(loss) before Income Tax, IFRS	**533,976**	**667,872**

* Non-monetary items consists of provisions: Inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, etc.

Description	Year ended 31 December 2008	Year ended 31 December 2007
Revenue, RSA	**17,834,722**	**15,724,499**
Construction contracts	329,443	51,676
Reclassification to Other Income	(532,835)	(35,248)
Return of goods	(597,750)	—
Other adjustments	(100,967)	(1,866)
Elimination of intercompany transactions	(2,885,541)	(2,339,705)
Unrealised profit	(827)	—
Transactions between operating segments	—	—
Revenue, IFRS	**14,046,245**	**13,399,356**
Depreciation and amortization, RSA	(195,313)	(120,877)
Uplift due to revaluation of property plant and equipment for IFRS	(152,515)	(156,295)
Depreciation and amortization, IFRS	(347,828)	(277,172)
Finance income, RSA	**71,154**	**7,604**
Discounting of long-term liabilities	3,849	26,623
Other income	560	826
Intersegments transactions	(49,113)	—
Finance income, IFRS	**26,450**	**35,053**
Finance cost, RSA	**(446,053)**	**(240,790)**
Finance lease expenses	(13,079)	(4,735)
Intersegments transactions	49,113	20,995
Other expense	(4,002)	(169)
Exchange gains and losses	(74,348)	(24,398)
Finance cost, IFRS	**(488,369)**	**(249,097)**

36 Segment Information (Continued)

Revenue by major customers	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other	Consolidated revenue for the year ended 31 December 2009
Revenues by counteragents without dividing by countries, Including	6,308,064	4,166,176	4,188,738	109,291	14,772,269
RN-Purneftegaz	27,964	188,767	1,832,729	—	2,049,460
Other (each <10% of total revenue)	6,280,100	3,977,409	2,356,009	109,291	12,722,809

In 2008 and 2007 there were no any customers with individual revenue more than 10% of each of total revenue.

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

Disclosures by segments	Consolidated revenue for the year ended 31 December 2009	Non-current Assets as at 31 December 2009	Consolidated revenue for the year ended 31 December 2008	Non-current Assets as at 31 December 2008	Consolidated revenue for the year ended 31 December 2007	Non-current Assets as at 31 December 2007
Revenues by countries of buyers of products and services	**14,772,269**	**4,308,908**	**14,046,245**	**4,288,494**	**13,399,356**	**3,123,248**
Including	—					
Russia	13,486,474	3,840,561	13,601,096	3,094,594	11,501,967	2,938,632
Belorussia	315,210	115,088	163,270	167,537	68,147	—
Kazakhstan	310,967	—	386,574	—	242,469	—
Iraq	267,190	—	(597,750)	—	1,023,557	—
Ukraine	99,726	353,259	202,164	1,026,363	244,259	184,616
Other	292,702	—	290,891	—	318,957	—

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

37 Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

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

37 Financial Risk Management (Continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2009 2008 and 2007, respectively:

	At 31 December 2009			At 31 December 2008			At 31 December 2007		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
USD	128,163	(308,124)	(179,961)	31,565	(158,715)	(127,150)	89,114	(100,272)	(11,158)
Euros	22,620	(2,331)	20,289	47,491	(14,748)	32,743	991,946	(945,006)	46,940
Total	**150,783**	**(310,455)**	**(159,672)**	**79,056**	**(173,463)**	**(94,407)**	**1,081,060**	**(1,045,278)**	**35,782**

The following exchange rates were applied to convert foreign currencies into Russian Roubles:

	31 December 2009	31 December 2008	31 December 2007
USD	30.2442	29.3804	24.5462
EURO	43.3883	41.4411	35.9332

At 31 December 2009, if the Russian Rouble (RR) had strengthened/weakened by 20% against the US dollar with all other variables held constant, post-tax profit for the year would have been RR 28,794 higher/lower (2008: strengthened by 33%, RR 31,889 higher/lower; 2007: strengthened by 15%, RR 1,272 higher/lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and borrowings.

At 31 December 2009, if the RR had strengthened/weakened by 20% against the EURO with all other variables held constant, post-tax profit for the year would have been RR 3,246 higher/lower (2008: strengthened by 27%, RR 6,719 higher/lower; 2007: strengthened by 15%, RR 5,351 higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade receivables and borrowings.

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

(ii) Price risk

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

(iii) Interest rate risk

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

The sales revenue and operating cash flow of the Group mainly do not depend on the change of market interest rates. The Group is exposed to the interest rate risk due to fluctuations of interest rates on short-term borrowings (Note 16). The Group does not have significant interest-bearing assets.

The fair value of the Group's bonds is disclosed in Note 16 and is estimated based on the market quotations. The fair value of the rest of financial instruments is approximately equal to their carrying value.

37 Financial Risk Management (Continued)

At 31 December 2009, if interest rates at that date had been 10% basis points lower (2008, 2007: 10% basis points lower) with all other variables held constant, profit for the year would have been RR 1,243 (2008: RR 1,058; 2007: RR 980) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 10% basis points higher (2008, 2007: 10% basis points higher), with all other variables held constant, profit would have been RR 1,055 (2008: RR 1,058; 2007: RR 980) lower, mainly as a result of higher interest expense on variable interest liabilities.

All other financial instruments are non-interest bearing.

(b) Credit risk

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

	2009	2008	2007
Trade and other receivables (Note 14, 15)			
—Trade receivables	1,400,707	1,415,141	2,315,454
—Other financial receivables	260,475	430,019	232,852
Cash and cash equivalents (Note 12)			
—Bank balances (including restricted cash)	757,847	669,022	375,701
—Cash on hand	719	1,080	2,392
Total on-balance sheet exposure	**2,419,748**	**2,515,262**	**2,926,399**
Total maximum exposure to credit risk	**2,419,748**	**2,515,262**	**2,926,399**

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

37 Financial Risk Management (Continued)

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

Agency	Rating	31 December 2009	31 December 2008	31 December 2007
Fitch***	B+	211,486	68,518	212,827
Moody's*	Prime – 2	319,695	431,341	—
S&P's**	BBB –	13,682	64,190	—
Moody's*	Baa2	—	—	26,256
IC Rating****	B2	—	—	14,907
Moody's*	Ba1	68,908	46,849	12,919
S&P's**	BBB+	—	24,882	—
Moody's*	Not Prime	28,536	15,057	—
Moody's*	Baa2		—	10,980
S&P's**	B –	1,018	5,499	—
IC Rating****	B1	—	—	6,321
Fitch***	BB –	—	—	2,935
Moody's*	B1	—	—	2,546
S&P's**	B	—	—	74,558
IC Rating****	B1	—	—	1,232
Moody's*	Baa2	—	—	938
S&P's**	B+	763	—	270
S&P's**	BBB	—	—	82
Moody's*	Baa2	—	—	69
National rating Agency	A	14,325	—	—
RUS rating	BB	60,300	—	—
Moody's*	E+	16,839	—	—
Other	—	23,014	13,766	11,253
Total		**758,566**	**670,102**	**378,093**

* International rating agency Moody's Investor Service

** International rating agency Standard & Poor's

*** International rating agency Fitch

**** Information Center Rating

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

37 Financial Risk Management (Continued)

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

	2009		2008	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Total not overdue and not impaired, including:	**1,044,976**	**258,736**	**1,249,669**	**424,585**
Large enterprises	706,848	71,241	820,454	350,070
Middle and small size companies	335,752	134,757	423,978	11,186
Government organization and agencies	2,297	301	2,251	78
Scientific research institutes	—	—	133	216
Individuals	79	15,585	1,680	10,368
Banks*	—	35,939	—	38,500
Other	—	913	1,173	14,167
Total past due but not impaired, including:	**355,731**	**1,739**	**165,472**	**5,434**
—less than 60 days overdue	179,004	50	123,891	285
—61 to 180 days overdue	112,187	745	38,538	—
—181 to 365 days overdue	42,547	917	3,039	5,149
—over 365 days overdue	21,993	27	4	—
Individually impaired (gross), including:	**111,184**	**118,749**	**126,729**	**7,822**
Current to be impaired	32,362	11,936	9,046	2,866
—less than 60 days overdue	2,715	—	48,516	159
—61 to 180 days overdue	7,170	3,283	17,280	1206
—181 to 365 days overdue	12,856	6,010	11,805	2,609
—over 365 days overdue	56,081	97,520	40,082	982
Less impairment provision	**(111,184)**	**(118,749)**	**(126,729)**	**(7,822)**
Total	**1,400,707**	**260,475**	**1,415,141**	**430,019**

* Analysis of credit ratings of banks is provided below.

37 Financial Risk Management (Continued)

It is the Group's policy to consider a provision for impairment of the accounts receivables in 60 days after the debt is incurred. The overdue receivables are regularly assessed for impairment and the Group sets up provisions for individually impaired receivables, while the other are classified as past due but not impaired.

	2007	
	Trade receivables	Other financial receivables
Total current and not impaired, including:	**2,201,620**	**232,852**
Large enterprises	497,059	137,107
Middle and small size companies	622,081	63,856
Government organization and agencies	1,032,626	—
Scientific research institutes	16,595	—
Individuals	—	16,889
Banks*	—	15,000
Other	33,259	—
Total past due but not impaired, including:	**113,834**	**—**
—less than 60 days overdue	79,446	—
—61 to 180 days overdue	11,441	—
—181 to 365 days overdue	22,161	—
—over 365 days overdue	786	—
Individually impaired (gross), including:	**51,387**	**12,242**
Current to be impaired	39,310	10,739
—less than 60 days overdue	424	164
—61 to 180 days overdue	2,403	505
—181 to 365 days overdue	4,945	360
—over 365 days overdue	4,305	474
Less impairment provision	**(51,387)**	**(12,242)**
Total	**2,315,454**	**232,852**

* Analysis of credit ratings of banks is provided below.

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

Agency	Rating	31 December 2009	31 December 2008	31 December 2007
Moody's*	Ba1	11,421	—	—
S&P's**	B−	10,256	—	—
National rating Agency	A	14,262	—	15,000
Moody's*	E	—	38,500	—
Total		**35,939**	**38,500**	**15,000**

The amount exposed to credit risk relating to financial receivables (the carrying amount of trade and other accounts receivable less doubtful debt provision) as of 31 December 2009 is RR 1,661,182 (2008: RR 1,845,160; 2007: RR 2,548,306).

37 Financial Risk Management (Continued)

Credit risks concentration

Date	Numbers of counterparties with aggregated receivables balances above RR 50,000 thousand	The total aggregate amount of these balances	% of the gross amount of trade and other receivables
At 31 December 2009	9	975,746	61%
At 31 December 2008	9	780,426	47%
At 31 December 2007	11	1,696,502	68%

The Group's bank deposits are held only with 8 banks (2008: 6 banks, 2007: 2) thus exposing the Group to a concentration of credit risk.

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

(c) Liquidity risk

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

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

Statement of financial position item	Carrying amount as at 31 December 2009	Cash flows under the contract			
		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans*	5,242,540	2,540,386	1,658,602	2,464,950	—
Other loans*	33,000	33,000	—	—	—
Finance lease liabilities*	21,573	16,512	9,216	9	—
Trade accounts payable	1,264,490	1,264,490	—	—	—
Other payables	58,110	58,110	—	—	—

Statement of financial position item	Carrying amount as at 31 December 2008	Cash flows under the contract			
		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans*	4,065,613	4,423,743	789	—	—
Other loans*	17,096	17,096	—	—	—
Finance lease liabilities*	41,543	27,022	16,707	9,225	—
Trade accounts payable	947,258	947,258	—	—	—
Other payables	125,441	125,441	—	—	—

37 Financial Risk Management (Continued)

Statement of financial position item	Carrying amount as at 31 December 2007	Cash flows under the contract			
		Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank loans*	2,951,483	2,938,413	405,374	—	—
Finance lease liabilities*	64,204	35,832	26,857	25,905	—
Trade accounts payable	2,137,632	2,137,632	—	—	—
Other payables	90,383	90,383	—	—	—

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

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

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

The table below analyses credit lines of the Group as at 31 December 2009 and 31 December 2008:

	31 December 2009	31 December 2008	31 December 2007
Credit lines	6,300,477	4,233,789	3,538,824
Undrawn credit facilities	1,065,174	171,885	598,115

As of 31 December 2009 5,4% of the total outstanding short-term and long-term borrowings is denominated in foreign currency, of which approximately 95,1% is in USD, 4,1% is in UAH, 0% in Euro and 0,8% in BYR Roubles. (2008: 4.4%—approximately 80% is in USD, and 8% is in UAH, 6% in Euro and 6% in BYR Roubles; 2007: 4.5%—approximately 90% is in USD, and 10% is in UAH).

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

Liquidity ratio. The Group's approach to managing liquidity is to ensure, to the extent possible, that the Group maintains, at all times, sufficient liquidity for settling its liabilities in due time avoiding unacceptable losses or risks of damaging Group reputation. In perspective, the Group's strategy is to maintain the liquidity ratio at 1.5.

	31 December 2009	31 December 2008	31 December 2007
Liquidity ratio	1.21	0.79	0.88
Current assets	6,939,845	6,206,316	6,152,381
Current liabilities	5,729,161	7,902,531	7,009,515

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

Management of capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital. For different borrowings taken by different companies banks provide different interest rates (Note 16).

37 Financial Risk Management (Continued)

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

The Group controls capital by calculating a Gearing ratio. This ratio is calculated as the net borrowing divided by total capital. The net borrowing includes all of the long-term and short-term borrowings carried on the Group's consolidated statement of financial position less the cash and cash equivalents. The capital is calculated as the sum of equity and net assets attributable to participants (for 2007) plus minority interest in the consolidated statement of financial position. In 2009, the Group's strategy, which have been to maintain the gearing ratio at the level not exceeding 200%.

As of the end of the reporting period the Gearing ratio was as follows:

	31 December 2009	31 December 2008	31 December 2007
Long-term loans	3,396,766	787	52,631
Short-term loans	1,878,774	4,081,922	2,898,852
Total borrowings received	**5,275,540**	**4,082,709**	**2,951,483**
Cash	(758,566)	(670,102)	(378,093)
Net borrowing	**4,516,974**	**3,412,607**	**2,573,390**
Equity	1,705,096	2,077,398	—
Net assets attributable to participants	—	—	1,756,562
Minority interest	669,631	648,114	567,953
Total capital	**2,374,727**	**2,725,512**	**2,324,515**
Gearing ratio	**190%**	**125%**	**111%**

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

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

38 Events after the Statement of Financial Position Date

Acquisition of Giprotumenneftegaz OJSC

In a series of transactions made during the first half 2010 the Group acquired 51% interest in Gyprotumenneftegaz OJSC ("GTNG") for RR 2,467,309 paid in cash. Management has commenced

38 Events after the Statement of Financial Position Date (Continued)

assessment of the fair values of the assets and liabilities acquired. The assessment was not completed at the time of finalising these financial statements.

	Attributed fair value determined provisionally
Cash and cash equivalents	127,872
Property, plant and equipment	195,126
Investment	401,674
Inventory	198,315
Receivables	839,918
Other assets	92,609
Trade and other payables	(243,471)
Other liabilities	(11,310)
Fair value of net assets of subsidiary	**1,600,733**
Less: minority interest	784,359
Less: interest acquired previously	32,015
Fair value of acquired interest in net assets of subsidiary	**784,359**
Goodwill arising from the acquisition	1,682,950
Total purchase consideration	**2,467,309**
Less: carrying amount of investment in the acquiree prior to the acquisition.	94,776
Less: cash and cash equivalents of subsidiary acquired.	127,872
Outflow of cash and cash equivalents on acquisition	**2,244,661**

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

The valuation of identifiable tangible and intangible assets is being performed by an independent professional appraiser but has not been completed, so attributed fair value of assets and liabilities acquired is determined provisionally.

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

Borrowings. Subsequent to the statement of financial position date the Group's subsidiaries received long-term loans in the amount of RR 3,059,849 from OJSC NOMOS-BANK, ZAO UniCredit Bank and Sberbank. The amount RR 1,865,000 was received from OJSC NOMOS-BANK for the acquisition of Gyprotumenneftegaz OJSC. Long-term loans bear interest rates of 9.60-11.30% and payable from March 2011 to June 2012. These loans are secured by guarantees issued by the companies of the Group.

Subsequent to the statement of financial position date the Group's subsidiaries pledged 30% of Dimitrovgradkhimmash OJSC shares as a security for long-term borrowings.

Non-current assets held for sale. Subsequent to the statement of financial position date, management decided to sell certain items of property, plant and equipment in the amount of RR 96,709, which realizable value was assessed higher than the value in use.

Dividends. During 2010 the Group subsidiaries declared dividends to the holders of preference shares in subsidiaries in the amount of RR 145,941.

HMS Group OJSC

Consolidated Condensed Interim Financial Information (unaudited)

30 September 2010

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Report on review of consolidated condensed interim financial information

To the Shareholders and the Board of Directors of Hydraulic Machines and Systems Group OJSC:

Introduction

We have reviewed the accompanying consolidated condensed interim statement of financial position of Hydraulic Machines and Systems Group OJSC (the "Company") and its subsidiaries (the "Group") at 30 September 2010 and the related consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of cash flows and consolidated condensed interim statement of changes in equity for the nine-month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

ZAO PricewaterhouseCoopers Audit

4 January 2011
Moscow, Russian Federation

HMS Group OJSC

Consolidated Condensed Interim Statement of Financial Position at 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 September 2010	31 December 2009
ASSETS			
Non-current assets:			
Property, plant and equipment	6	5,714,419	3,954,807
Other intangible assets	7	87,265	47,109
Goodwill	8	1,873,992	306,992
Investments in associates	10	501,453	507,293
Deferred income tax assets		93,403	53,989
Other long-term receivables		163,889	33,362
Total non-current assets		**8,434,421**	**4,903,552**
Current assets:			
Inventories	12	3,259,431	3,179,644
Trade and other receivables and other financial assets	13	11,006,986	2,875,755
Current income tax receivable		75,742	57,974
Prepaid expenses		44,730	35,104
Cash and cash equivalents	11	1,897,817	757,661
Restricted cash	11	3,768	905
		16,288,474	6,907,043
Non-current assets held for sale	14	96,255	—
Total current assets		**16,384,729**	**6,907,043**
TOTAL ASSETS		**24,819,150**	**11,810,595**

HMS Group OJSC

Consolidated Condensed Interim Statement of Financial Position at 30 September 2010 (unaudited) (Continued)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 September 2010	31 December 2009
EQUITY AND LIABILITIES			
EQUITY			
Share capital		591,180	591,180
Currency translation reserve		(215,099)	(168,051)
Retained earnings		2,289,106	1,308,801
Other reserves		(26,834)	(26,834)
Equity attributable to the Company's equity holders		**2,638,353**	**1,705,096**
Non-controlling interest		**1,493,756**	**669,631**
TOTAL EQUITY		**4,132,109**	**2,374,727**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	15	4,134,881	3,396,766
Finance lease liability		341	8,479
Deferred income tax liability		607,813	197,307
Pension liability	16	293,589	125,407
Long-term payables		49,234	—
Provisions for liabilities and charges	20	29,570	11,550
Total non-current liabilities		**5,115,428**	**3,739,509**
Current liabilities:			
Trade and other payables	18	12,934,083	3,255,490
Short-term borrowings	15	941,694	1,878,774
Provisions for liabilities and charges	20	224,169	209,746
Finance lease liability		11,053	13,094
Pension liability	16	9,492	20,922
Current income tax payable		47,228	25,069
Other taxes payable	19	1,403,894	293,264
Total current liabilities		**15,571,613**	**5,696,359**
TOTAL LIABILITIES		**20,687,041**	**9,435,868**
TOTAL EQUITY AND LIABILITIES		**24,819,150**	**11,810,595**

Approved for issue and signed on behalf of the Board of Directors on 4 January 2011.

A.V. Molchanov
President
HMS Group OJSC

K.V. Molchanov
Vice-president
HMS Group OJSC

The accompanying notes on pages F-87 to F-118 are an integral part of this consolidated condensed interim financial information.

HMS Group OJSC

Consolidated Condensed Interim Statement of Comprehensive Income for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue	23	16,157,721	9,775,040
Cost of sales	24	(12,299,622)	(7,097,756)
Gross profit		**3,858,099**	**2,677,284**
Distribution and transportation expenses	25	(398,381)	(367,554)
General and administrative expenses	26	(1,373,794)	(1,317,691)
Other operating expenses, net	27	(53,950)	(90,493)
Impairment of goodwill	8	—	(116,998)
Operating profit		**2,031,974**	**784,548**
Finance income	28	51,093	49,780
Finance costs	29	(668,200)	(658,315)
Share of results of associates	10	9,271	22,920
Profit before income tax		**1,424,138**	**198,933**
Income tax expense	22	(329,131)	(137,332)
Profit for the period		**1,095,007**	**61,601**
Profit attributable to:			
Equity holders of the Company		1,000,372	(36,673)
Non-controlling interest		94,635	98,274
Profit for the period		**1,095,007**	**61,601**
Currency translation differences		(62,151)	(99,812)
Currency translation differences of associate	10	1,690	(3,514)
Other comprehensive loss for the period		**(60,461)**	**(103,326)**
Total comprehensive income/(loss) for the period		**1,034,546**	**(41,725)**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		953,324	(112,285)
Non-controlling interest		81,222	70,560
Total comprehensive income/(loss) for the period		**1,034,546**	**(41,725)**
Basic and diluted earnings per ordinary share for profit/(loss) attributable to the ordinary shareholders		**0.846**	**(0.031)**

The accompanying notes on pages F-87 to F-118 are an integral part of this consolidated condensed interim financial information.

HMS Group OJSC

Consolidated Condensed Interim Statement of Cash Flows for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Cash flows from operating activities			
Profit before income tax		1,424,138	198,933
Adjustments for:			
Depreciation and amortisation	6,7	267,373	257,949
(Gain)/loss from disposal of property, plant and equipment and intangible assets	27	(15,704)	4,929
Finance income	28	(51,093)	(46,611)
Finance costs	29	667,534	658,315
Pension expenses/(income)	16	45,830	(13,335)
Warranty provision	24	22,376	11,434
Impairment of taxes receivable	27	13,275	—
Interest expense related to construction contracts		16,330	—
Provision for impairment of accounts receivable	26	(35,539)	57,934
Provision for obsolete inventories	24	(112,560)	93,887
Foreign exchange translation differences	28,29	666	(3,169)
Provisions for legal claims	26	(8,891)	13,678
Provision for VAT receivable	26	4,727	29,991
Share of results of associates	10	(9,271)	(22,920)
Impairment of goodwill	8	—	116,998
Impairment of property, plant and equipment and intangible assets	6,7,24	—	14,320
Loss on disposal of subsidiaries		4,360	—
Other non-cash items		(3,892)	(356)
Operating cash flows before working capital changes		**2,229,659**	**1,371,977**
Decrease/(increase) in inventories		43,791	(71,152)
Increase in trade and other receivables		(7,567,708)	(38,855)
Increase in taxes payable		1,034,083	18,949
Increase/(decrease) in accounts payable and accrued liabilities		9,055,088	(510,104)
Restricted cash		(2,863)	(222)
Cash generated from operations		**4,792,050**	**770,593**
Income tax paid		(164,077)	(232,314)
Interest paid		(684,277)	(654,985)
Net cash from/(used in) operating activities		**3,943,696**	**(116,706)**
Cash flows from investing activities			
Repayment of loans advanced		67,289	56,509
Loans advanced		(5,337)	(154,131)
Proceeds from sale of property, plant and equipment		6,220	536
Interest received		18,175	18,693
Dividends received	10	15,288	9,385
Purchase of property, plant and equipment		(456,346)	(178,594)
Acquisition of associates	10	—	(122,756)
Acquisitions of subsidiaries, net of cash acquired	9	(2,339,457)	(239,806)
Proceeds from disposal of subsidiaries, net of cash disposed		7,475	—
Acquisition of intangible assets		(21,353)	(15,642)
Net cash used in investing activities		**(2,708,046)**	**(625,806)**
Cash flows from financing activities			
Repayments of borrowings		(7,282,102)	(3,630,625)
Proceeds from borrowings		7,491,756	4,365,128
Payment for finance lease		(10,179)	(13,057)
Acquisition of non-controlling interest in subsidiaries	9	(576,878)	(104,580)
Cash received from additional share issue of subsidiary		428,420	—
Dividends paid to non-controlling shareholders of subsidiaries		(145,937)	(209)
Net cash (used in)/from financing activities		**(94,920)**	**616,657**
Net increase/(decrease) in cash and cash equivalents		**1,140,730**	**(125,855)**
Effect of exchange rate changes on cash and cash equivalents		**(574)**	**(7,773)**
Cash and cash equivalents at the beginning of the period		**757,661**	**669,482**
Cash and cash equivalents at the end of the period		**1,897,817**	**535,854**

The accompanying notes on pages F-87 to F-118 are an integral part of this consolidated condensed interim financial information.

HMS Group OJSC

Consolidated Condensed Interim Statement of Changes in Equity for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

		Capital and reserves attributable to the equity holders of the Company						
	Note	**Share capital**	**Other reserves**	**Cumulative currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009		**591,180**	**(26,834)**	**(122,942)**	**1,635,994**	**2,077,398**	**648,114**	**2,725,512**
Profit for the period		—	—	—	(36,673)	(36,673)	98,274	61,601
Other comprehensive loss								
Change in cumulative currency translation reserve		—	—	(72,098)	—	(72,098)	(27,714)	(99,812)
Share of comprehensive loss from associates		—	—	(3,514)	—	(3,514)	—	(3,514)
Total comprehensive income/(loss) for the period		**—**	**—**	**(75,612)**	**(36,673)**	**(112,285)**	**70,560**	**(41,725)**
Distribution to non-controlling shareholders of the Group's subsidiaries	21	—	—	—	—	—	(209)	(209)
Allocation of net assets to non-controlling shareholders of the Group's subsidiaries	21	—	—	—	(168)	(168)	168	—
Business combinations	9	—	—	—	—	—	9,335	9,335
Acquisition of non-controlling interest in subsidiaries	9	—	—	—	(40,917)	(40,917)	(63,663)	(104,580)
Disposal of non-controlling interest in subsidiaries	9	—	—	—	(77,380)	(77,380)	77,380	—
Balance at 30 September 2009		**591,180**	**(26,834)**	**(198,554)**	**1,480,856**	**1,846,648**	**741,685**	**2,588,333**
Balance at 1 January 2010		**591,180**	**(26,834)**	**(168,051)**	**1,308,801**	**1,705,096**	**669,631**	**2,374,727**
Profit for the period		—	—	—	1,000,372	1,000,372	94,635	1,095,007
Other comprehensive income/(loss)								
Change in cumulative currency translation reserve		—	—	(48,738)	—	(48,738)	(13,413)	(62,151)
Share of comprehensive income from associates		—	—	1,690	—	1,690	—	1,690
Total comprehensive income/(loss) for the period		**—**	**—**	**(47,048)**	**1,000,372**	**953,324**	**81,222**	**1,034,546**
Distribution to non-controlling interest of the Group's subsidiaries	21	—	—	—	—	—	(145,937)	(145,937)
Allocation of net assets to non-controlling interest of the Group's subsidiaries	21	—	—	—	(118,143)	(118,143)	118,143	—
Business combinations	9	—	—	—	—	—	1,445,651	1,445,651
Acquisition of non-controlling interest in subsidiaries	9	—	—	—	15,894	15,894	(592,772)	(576,878)
Disposal of non-controlling interest in subsidiaries	9	—	—	—	82,182	82,182	(82,182)	—
Balance at 30 September 2010		**591,180**	**(26,834)**	**(215,099)**	**2,289,106**	**2,638,353**	**1,493,756**	**4,132,109**

The accompanying notes on pages F-87 to F-118 are an integral part of this consolidated condensed interim financial information.

1 General Information

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

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

In June 2010, the shareholders of Hydroindustry LLC, Hydromashinvest LLC and other entities owning shares of HMS-Holding LLC and of the Company acquired Bishopstow Holdings plc, incorporated in Cyprus, and subsequently renamed it to H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED.

In September 2010, the shareholders of Hydroindustry LLC, Hydromashinvest LLC and other entities owning shares of HMS-Holding LLC and of the Company signed a restructuring agreement. Under this agreement, the shares of those shareholders in the entities, holding shares in HMS-Holding LLC and direct shares in the Company, were contributed into the share capital of H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED in exchange for newly issued shares, so that their shares in this new parent company reflect their respective effective shares in HMS-Holding LLC and in the Company before the restructuring. The shareholders' rights in respect of the Group's governance and control were contractually retained during the restructuring period.

The Group's financial results for any individual quarter are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to market conditions and cyclical variations in capital expenditures spending by customers.

2 Basis of Preparation

This consolidated condensed interim financial information for the nine months ended 30 September 2010 has been prepared in accordance with IAS 34, *Interim financial reporting*. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2009 which have been prepared in accordance with International Financial Reporting Standards (IFRS).

3 Accounting Policies and Critical Accounting Estimates and Judgments

Accounting policies. The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2009, as described in those annual consolidated financial statements, except as described in Note 4 and in paragraph *Income tax and unified social tax* below.

Current and non-current assets and liabilities—the classification of an asset or liability as a current or non-current asset or liability in general depends on whether the item is related to serial production or subject to long-term construction contracts. In case of serial production, an asset or liability is classified as a non-current asset or liability when the item is realised or settled respectively after twelve months after the reporting date, and as current asset or liability when the item is realised or settled respectively within twelve months after the reporting date. In case of construction contracts, an asset or liability is classified as

3 Accounting Policies and Critical Accounting Estimates and Judgments (Continued)

non-current when the item is realised or settled respectively beyond the Group's normal operating cycle; and as a current asset or liability when the item is realised or settled in the Group's normal operating cycle. Accordingly, there are amounts due to/due from customers under construction contracts, inventories, advances to suppliers and subcontractors, which may not be realised within twelve months after the reporting date, that have been classified as current.

Income tax and unified social tax—income tax and unified social tax in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings of the Group and employees, respectively.

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

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

During the nine months ended 30 September 2010, the Group entered into a number of agreements for construction and delivery of oil-trunk pumping units and spare parts for the oil pipelines Purpe-Samotlor and Eastern Siberia Pacific Ocean, which are constructed to provide export of crude oil from Russia to the Asian Pacific markets, including Japan, China and Korea. Pumping units, which will be combined in pumping stations, constructed under these agreements, represent complex highly customised equipment consisting of unique components and parts. Under these agreements, the Group will also perform supervision of pumping units installation and pumping stations start-up process. Total budgeted revenue for these contracts at 30 September 2010 exceeds RR 12 billion. The contracts are expected to be executed during 2010-2013.

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

Method of accounting used for these contracts places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion. For the determination of the progress of the respective contract significant estimates include total contract costs, remaining cost to completion, contract risks and other judgments. Management of the respective operating divisions continually reviews all estimates involved in such construction contracts and adjusts them as necessary.

In accordance with Russian Civil Code and the terms of the respective agreements, in certain circumstances and where supply terms are not adhered to, the Group may be subject to penalties or rejection by the customer to accept the equipment. Management assesses such risk as remote and does not expect such conditions to result in a loss to the Group.

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

For the nine months ended 30 September 2010, the Group recognised revenue in respect of these contracts of RR 2,352,800. This amount is included as part of revenue from construction contracts (Note 23). At 30 September 2010, payables due to customers (Note 18) include the amount of RR 6,689,248,

3 Accounting Policies and Critical Accounting Estimates and Judgments (Continued)

representing net amount of advances received from customers of RR 9,042,048 (excluding VAT) and recognised revenue of RR 2,352,800, and advances paid to suppliers and subcontractors (Note 13) include the amount of RR 3,199,836 (including VAT), related to these contracts.

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

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

At 30 September 2010, the Group performed an impairment test of property, plant and equipment and goodwill, recognised on acquisitions. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 5 years. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. As a result of this test, no impairment of property, plant and equipment or goodwill was identified.

4 Adoption of New or Revised Standards and Interpretations

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

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

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

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business

4 Adoption of New or Revised Standards and Interpretations (Continued)

combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 has been applied by the Group prospectively and therefore there is no impact on prior periods in this consolidated condensed interim financial information.

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

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

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

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating

4 Adoption of New or Revised Standards and Interpretations (Continued)

decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

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

5 New Accounting Pronouncements

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

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

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

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

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

Limited exemption from comparative IFRS 7 disclosures for first-time adopters—Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to

5 New Accounting Pronouncements (Continued)

IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group concluded that this amendment does not have any effect on its consolidated financial statements.

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

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

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

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

5 New Accounting Pronouncements (Continued)

include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

6 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2009	**125,158**	**2,263,606**	**1,708,552**	**162,978**	**167,508**	**260,847**	**4,688,649**
Accumulated depreciation	**—**	**(153,191)**	**(462,575)**	**(70,206)**	**(74,304)**	**—**	**(760,276)**
Carrying amount at 1 January 2009	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Acquisitions through business combinations (Note 9)	10,746	90,274	25,886	1,174	2,966	—	131,046
Additions	5,563	40,095	56,349	4,622	27,799	92,351	226,779
Transfers	—	85,204	36,697	—	1,843	(123,744)	—
Disposals	(5,098)	(462)	(1,695)	(158)	(1,499)	(28,698)	(37,610)
Impairment charge	—	(1,889)	(6,903)	—	(1,217)	(1,670)	(11,679)
Depreciation for the period	—	(52,595)	(147,780)	(19,133)	(22,239)	—	(241,747)
Translation to presentation currency	(2,219)	(27,004)	(17,952)	(723)	(1,315)	(2,115)	(51,328)
Carrying amount at 30 September 2009	**134,150**	**2,244,038**	**1,190,579**	**78,554**	**99,542**	**196,971**	**3,943,834**
Cost at 30 September 2009	**134,150**	**2,449,461**	**1,800,471**	**166,330**	**195,501**	**198,642**	**4,944,555**
Accumulated depreciation and impairment	**—**	**(205,423)**	**(609,892)**	**(87,776)**	**(95,959)**	**(1,671)**	**(1,000,721)**
Cost at 1 January 2010	**137,730**	**2,510,359**	**1,866,313**	**167,577**	**202,145**	**145,831**	**5,029,955**
Accumulated depreciation	**—**	**(227,807)**	**(653,444)**	**(90,850)**	**(102,120)**	**(927)**	**(1,075,148)**
Carrying amount at 1 January 2010	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**
Acquisitions through business combinations (Note 9)	8,293	1,302,442	102,088	10,548	106,981	16,801	1,547,153
Additions	8,127	12,970	99,588	21,211	40,236	403,439	585,571
Transfers	—	51,821	30,936	—	1,143	(83,900)	—
Assets of disposal group classified as held for sale	—	(94,562)	(1,533)	(160)	—	—	(96,255)
Disposals	—	(4,303)	(4,679)	(936)	(4,162)	(5,458)	(19,538)
Depreciation for the period	—	(69,551)	(128,232)	(17,457)	(33,751)	—	(248,991)
Translation to presentation currency	524	(2,079)	339	(2,031)	(3,218)	(1,863)	(8,328)
Carrying amount at 30 September 2010	**154,674**	**3,479,290**	**1,311,376**	**87,902**	**207,254**	**473,923**	**5,714,419**
Cost at 30 September 2010	**154,674**	**3,768,265**	**2,076,511**	**193,196**	**334,454**	**473,923**	**7,001,023**
Accumulated depreciation and impairment	**—**	**(288,975)**	**(765,135)**	**(105,294)**	**(127,200)**	**—**	**(1,286,604)**

At 30 September 2010, the Group's property, plant and equipment for a total of RR 865,607 had been pledged as security for certain borrowings (31 December 2009: RR 1,009,149) (Note 15).

Construction-in-progress includes advances for capital expenditures for a total of RR 164,356 at 30 September 2010 (31 December 2009: RR 49,843).

At 30 September 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 100,994 (31 December 2009: RR 33,168).

Due to impairment indicators occurred at the end of 2009 and during 2010 the impairment test was performed for certain cash-generating units (CGUs).

6 Property, Plant and Equipment (Continued)

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

Based on the results of impairment tests the Group did not recognise any impairment loss at 30 September 2010 and for the nine month period then ended (at 30 September 2009 and for the nine month period then ended: RR 11,679 for property, plant and equipment and RR 2,641 for other intangible assets related to Electrodvigatel OJSC).

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

	30 September 2010	30 September 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 12% to 18%	From 16% to 22%

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

7 Other Intangible Assets

	Patents	Licensed technology	Acquired software license	Customer relationships	Trademarks	Websites	Total
Cost at 1 January 2009	**12,576**	**13,097**	**18,429**	**7,595**	**14,528**	**70**	**66,295**
Accumulated amortisation and impairment	**(550)**	**(4,610)**	**(4,661)**	**(2,586)**	**(434)**	**(15)**	**(12,856)**
Carrying amount at 1 January 2009	**12,026**	**8,487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**
Acquisitions through business combinations (Note 9)	—	2,390	—	—	—	—	2,390
Additions	19	2,794	8,230	—	3,935	1,134	16,112
Disposals	(5)	(1,265)	(635)	(349)	—	—	(2,254)
Impairment charge	—	(377)	(2,264)	—	—	—	(2,641)
Amortisation for the period	(2,422)	(3,103)	(4,542)	(3,862)	(2,233)	(40)	(16,202)
Translation to presentation currency	(1,325)	(18)	(17)	456	(812)	(4)	(1,720)
Carrying amount at 30 September 2009	**8,293**	**8,908**	**14,540**	**1,254**	**14,984**	**1,145**	**49,124**
Cost at 30 September 2009	**10,842**	**14,936**	**25,762**	**4,966**	**17,361**	**1,198**	**75,065**
Accumulated amortisation and impairment	**(2,549)**	**(6,028)**	**(11,222)**	**(3,712)**	**(2,377)**	**(53)**	**(25,941)**
Cost at 1 January 2010	**11,015**	**15,955**	**26,767**	**4,893**	**18,108**	**1,201**	**77,939**
Accumulated amortisation and impairment	**(3,164)**	**(6,886)**	**(13,172)**	**(4,281)**	**(3,238)**	**(89)**	**(30,830)**
Carrying amount at 1 January 2010	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**
Acquisitions through business combinations (Note 9)	13	102	5,014	—	33,826	—	38,955
Additions	121	5,824	15,354	—	—	—	21,299
Disposals	(112)	(245)	(1,239)	—	—	—	(1,596)
Amortisation for the period	(1,446)	(4,067)	(7,894)	(612)	(4,258)	(105)	(18,382)
Translation to presentation currency	(208)	(11)	(93)	—	192	—	(120)
Carrying amount at 30 September 2010	**6,219**	**10,672**	**24,737**	**—**	**44,630**	**1,007**	**87,265**
Cost at 30 September 2010	**10,316**	**19,487**	**41,002**	**—**	**52,194**	**1,201**	**124,200**
Accumulated amortisation and impairment	**(4,097)**	**(8,815)**	**(16,265)**	**—**	**(7,564)**	**(194)**	**(36,935)**

8 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Gross book value at 1 January	**423,990**	**306,682**
Accumulated impairment at 1 January	(116,998)	—
Carrying amount at 1 January	**306,992**	**306,682**
Acquisitions of subsidiaries (Note 9)	1,571,519	117,308
Disposals of subsidiaries (Note 9)	(4,519)	—
Impairment of goodwill	—	(116,998)
Carrying amount at 30 September	**1,873,992**	**306,992**
Gross book value	**1,990,990**	**423,990**
Accumulated impairment losses	(116,998)	(116,998)
Carrying amount at 30 September	**1,873,992**	**306,992**

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

	30 September 2010	31 December 2009 and 30 September 2009
Gyprotyumenneftegaz OJSC	1,571,519	—
EPF "SIBNA" Inc. JSC	117,308	117,308
Trest Sibkomplektmontazhnaladka OJSC	95,691	95,691
Institute Rostovskiy Vodokanalproekt OJSC	72,717	72,717
Tomskgazstroy OJSC	16,757	16,757
Gydromash-Industria LLC	—	4,519
Total carrying amount of goodwill	**1,873,992**	**306,992**

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

Based on the results of these calculations the Group concluded that no impairment charge was required at 30 September 2010.

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

	30 September 2010	30 September 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 12% to 18%	From 16% to 22%

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

As a result of impairment tests performed at 30 September 2009 an impairment loss in relation to Trest Sibkomplektmontazhnaladka OJSC (RR 94,881) and Rostovskiy Vodokanalproekt OJSC (RR 22,117) was

8 Goodwill (Continued)

identified and recognised in consolidated condensed interim financial information of the Group for the nine months ended 30 September 2009.

9 Business Combinations

Acquisition of Giprotyumenneftegaz OJSC

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

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

The acquired company contributed revenue of RR 538,921 and profit after income tax of RR 10,909 to the Group for the period from the date of acquisition to 30 September 2010. Had the acquisition occurred on 1 January 2010, the revenue from the acquired business would have been RR 1,518,356 and profit after income tax would have been RR 76,002 for the nine months ended 30 September 2010.

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

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. Such assessments may change when identification and fair value measurment of identifiable intangible assets are complete. The provisional purchase price allocation for the acquisition is as follows:

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

9 Business Combinations (Continued)

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

Acquisition of EPF "SIBNA"

In June 2009, the Group acquired control over EPF "SIBNA" Inc. OJSC by increasing its share from 29.9% to 76.7% for purchase consideration of RR 247,896, paid in cash. The acquired entity's activity is the sales and repair oil and gas equipment, design of instrumentation technology. The acquired company contributed revenue of RR 50,976 and gain of RR 12,784 to the Group for the period from the date of acquisition to 30 September 2009. Had the acquisition occurred on 1 January 2009, the revenue from the acquired business would have been RR 118,817, and profit after income tax would have been RR 10,249 for the nine months ended 30 September 2009.

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

	Fair value
Property, plant and equipment	131,046
Intangible assets	2,390
Other long-term receivables	1,186
Inventories	62,415
Trade and other receivables	30,785
Cash and cash equivalents	8,090
Deferred tax liability	(16,445)
Pension liability	(2,724)
Trade and other payable	(9,946)
Pension liability	(494)
Other taxes payable	(3,937)
Fair value of net assets	**202,366**
Less: Minority interest	(9,335)
Less: Fair value of the interest in associate previously held	(62,443)
Fair value of acquired interest in net assets	**130,588**
Goodwill	117,308
Total purchase consideration	**247,896**
Less: cash and cash equivalents of subsidiaries acquired	(8,090)
Outflow of cash and cash equivalents on acquisition	**239,806**

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

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

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

Disposal of controlling interest in Hydromash-Industria LLC

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

9 Business Combinations (Continued)

Acquisition/disposal of non-controlling interest in subsidiaries

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

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

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

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

In September 2010, the Group acquired an additional 7.62% interest in GTNG for RR 417,982, paid in cash. As a result of this transaction, the Group increased its ownership interest in GTNG from 38.26% to 45.88% decreasing the non-controlling interest by RR 410,971. As a result of this transaction, the Group increased its ownership interest in SKMN from 79.63% to 82.14% decreasing the non-controlling interest by RR 9,483.

For the nine months ended 30 September 2010, other transactions with non-controlling interest resulted in the decrease of non-controlling interest by RR 2,828.

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

During the nine months ended 30 September 2009, in a series of transactions the Group acquired an additional interest 4.36% in Tomskgazstroy OJSC for RR 40,077 paid in cash. As a result of these transactions, the Group increased its ownership interest in Tomskgazstroy OJSC from 62.01% to 66.37% decreasing the non-controlling interest by RR 17,216.

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

9 Business Combinations (Continued)

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

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

In September 2009, the Group transferred 99.53% of its interest in SPA Gydromash CJSC from HYDROMASHSERVICE CJSC to Nasosenergomash OJSC. As a result of this transaction, the Group decreased its ownership interest in SPA Gydromash CJSC from 99.53% to 82.89% increasing the non-controlling interest by RR 22,351.

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

During the nine months ended 30 September 2009, the Group transferred interest in Hydraulic Machines and Systems Management LLC between companies of the Group. As a result of these transactions, the Group increased its ownership interest in Hydraulic Machines and Systems Management LLC from 98.1% to 98.9% and decreased the non-controlling interest by RR 1,324.

10 Investments in Associates

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

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

Investments in associates at 30 September 2010 include goodwill of RR 113,195 (30 September 2009: RR 113,195).

The Group's investments in associates are as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Carrying amount at 1 January	**507,293**	**449,848**
Cost of acquisition of associates	—	122,756
Cost of disposal of associates	—	(11,582)
Reclassification due to acquisition of controlling interest	—	(62,443)
Dividends	(16,801)	(9,385)
Share of after tax results of associates	9,271	22,920
Translation to presentation currency	1,690	(3,514)
Carrying amount at 30 September	**501,453**	**508,600**

11 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	30 September 2010	31 December 2009
Cash on hand	918	719
RR denominated balances with banks	528,497	268,069
Foreign currency denominated balances with banks	58,089	107,088
RR denominated bank deposits	1,297,599	381,045
Other cash equivalents	12,714	740
Total cash and cash equivalents	**1,897,817**	**757,661**

At 30 September 2010, the closing balance of short-term bank deposits comprised short-term bank deposits in four banks with a 4.5-19.5% interest rate (2009: 1.0-13.0%—six banks).

Restricted cash

Restricted cash of RR 3,768 (31 December 2009: RR 905) represents minimum balances for settlement and corporate plastic cards accounts.

12 Inventories

	30 September 2010	31 December 2009
Raw materials and supplies	1,151,186	951,228
Inventory for implementation of construction contracts	634,711	1,072,281
Work in progress	810,921	414,879
Finished goods and goods for resale	596,113	838,670
Other inventories	182,259	127,087
Provision for obsolete inventories	(115,759)	(224,501)
Total inventories	**3,259,431**	**3,179,644**

At 30 September 2010, inventories of RR 466,776 were pledged as collateral for certain borrowings (31 December 2009: RR 527,890) (Note 15). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 24.

13 Trade and Other Receivables and Other Financial Assets

	30 September 2010	31 December 2009
Trade receivables	2,736,696	1,507,542
Less: provision for impairment of trade receivables	(96,154)	(111,184)
Short-term loans issued	27,848	103,667
Bank promissory notes receivable	5,626	2,706
Government bonds	54,447	—
Bank deposits	556,515	24,518
Promissory notes receivable	—	3,533
Other receivables	108,870	78,954
Less: provision for impairment of other receivables	(29,962)	(23,189)
Receivables due from customers for construction work (Note 17)	876,663	154,388
Less: provision for receivables due from customers for construction work	(95,560)	(95,560)
Financial assets within trade and other receivables, net	**4,144,989**	**1,645,375**
Advances to suppliers and subcontractors	4,730,953	714,059
Less: provision for impairment of advances to suppliers	(44,328)	(52,070)
VAT receivable	2,186,012	585,816
Provision for VAT receivable	(24,002)	(32,802)
Other taxes receivable	13,362	15,377
Non-financial assets within other receivables, net	**6,861,997**	**1,230,380**
Total trade and other receivables	**11,006,986**	**2,875,755**

Included in VAT receivable at 30 September 2010 is VAT related to advances received from customers in amount of RR 1,824,673 (31 December 2009: RR 63,866).

14 Non-current Assets Held for Sale

At 30 September 2010, the assets classified as held for sale in the amount of RR 96,255 represented certain buildings, plant and equipment and transport which the Group intends to dispose of in the next twelve months in accordance with the approved plan of sale. Initially, this property was classified as part of property, plant and equipment. No loss was recognised on reclassification of this property as held for sale assets.

15 Borrowings

	Interest rate	Denominated in	Maturity	30 September 2010	31 December 2009
Long-term loans:					
Long-term loan 1	10.5%	RR	August 2012	800,000	800,000
Long-term loan 2	10.5%	RR	December 2012	500,000	500,000
Long-term loan 3	11.3%	RR	January 2014-May 2015	1,454,776	—
Long-term loan 4	8.75%	RR	February 2012	102,432	873,113
Long-term loan 5	10.5%	RR	April 2014	997,588	995,667
Long-term loan 6	10.5%	RR	May 2014	110,000	110,000
Long-term loan 7	MosPrime+3.5%	RR	December 2011	100,000	100,000
Long-term loan 8	MosPrime+5.35%	RR	December 2011	279,038	17,986
Long-term loan 9	0%	UAH	December 2011	2,681	—
				4,346,515	**3,396,766**
Less: current portion of long-term borrowings				(211,634)	—
Total long-term borrowings				**4,134,881**	**3,396,766**

	Interest rate	Denominated in	30 September 2010	31 December 2009
Short-term unsecured loans:				
Unsecured bank loan 1	15%	RR	—	1,050,000
Unsecured bank loan 2	MosPrime+4.7%	RR	—	62,500
Unsecured bank loan 3	8.75-16.5%	RR	—	388,121
Unsecured bank loan 4	10%	RR	2,160	—
Unsecured bank loan 6	LIBOR+8.75%	USD	—	238,929
Unsecured loan 5	15.5%	RR	—	33,000
			2,160	**1,772,550**
Short-term secured loans:				
Secured bank loan 1	16%	RR	1,924	3,230
Secured bank loan 2	16%	RR	—	40,988
Secured bank loan 3	10.75%	USD	—	30,299
Secured bank loan 4	23%	UAH	—	11,210
Secured bank loan 5	10.5%	RR	120,000	—
Secured bank loan 6	23%	RR	—	10,958
Secured bank loan 7	8.75-16.5%	RR	599,849	—
Secured bank loan 9	23%	BYR	3,435	2,202
			725,208	**98,887**
Current portion of long-term borrowings			211,634	—
Interest on short-term borrowings			2,692	7,337
Total short-term borrowings			**941,694**	**1,878,774**

15 Borrowings (Continued)

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

	30 September 2010	31 December 2009
RR	5,070,406	4,991,739
USD	—	269,895
BYR	3,487	2,272
UAH	2,682	11,634
Total borrowings	**5,076,575**	**5,275,540**

At 30 September 2010, the Group pledged property, plant and equipment and inventories in total amount of RR 865,607 and 466,776 (2009: RR 1,009,149 and RR 527,890), respectively. At 30 September 2010, the Group pledged 25% plus one share of HMS Neftemash OJSC as a security for certain borrowings. Pledged value of this interest was RR 1,376,302. The Group also pledged its 51% of ordinary shares in GTNG as a security for the Long-term loan 3, obtained for the acquisition of GTNG.

During the nine months ended 30 September 2010, interest rates on long-term borrowings were revised and decreased for 4-7% per annum on the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates.

At 30 September 2010 and 31 December 2009, the fair value of long-term and short-term borrowings approximated their carrying amount.

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

16 Retirement Benefit Obligations

The following amounts were recognised in the consolidated condensed interim statement of comprehensive income:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current service cost	8,957	9,272
Interest cost	13,243	12,650
Past service cost	1,277	(347)
Curtailment of a plan	(46,988)	—
Net actuarial loss/(gain) recognised during the period	69,341	(34,910)
Net periodic benefit expense/(income)	**45,830**	**(13,335)**

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

	30 September 2010	31 December 2009
Present value of defined benefit obligations	302,816	145,319
Unrecognised past service cost	265	1,010
Liability in the statement of financial position	**303,081**	**146,329**

17 Construction Contracts

During the nine months ended 30 September 2010, the construction contracts revenue was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures represented below related to Group subsidiaries performed activities under construction contracts:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Construction contracts revenue	7,115,132	1,813,336
Contract cost expensed	(6,017,584)	(1,664,551)
Gross margin	**1,097,548**	**148,785**

	30 September 2010	31 December 2009
Advances from customers, related to construction contracts	279,351	140,738
Retentions	91,422	44,471

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

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	7,520,318	2,569,400
Aggregate amount of recognised profits	625,216	134,279
Aggregate amount of recognised losses	(31,007)	(1,097)
Less: Progress billings	(7,237,864)	(2,548,194)
Gross amount due from customers for contract work	**876,663**	**154,388**

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	4,135,875	1,206,334
Aggregate amount of recognised profits	1,270,900	298,218
Aggregate amount of recognised losses	(11,149)	(2,633)
Less: Progress billings	(12,634,611)	(1,665,391)
Gross amount due to customers for contract work	**(7,238,985)**	**(163,472)**

18 Trade and Other Payables

	30 September 2010	31 December 2009
Trade payables	2,133,860	1,264,490
Other payables	144,157	58,110
Financial trade and other payables	**2,278,017**	**1,322,600**
Advances from customers	1,565,489	1,561,765
VAT on advances from customers included in receivables due from/payables due to customers for construction work	1,627,569	—
Payables due to customers for construction work (Note 17)	7,238,985	163,472
Wages and salaries payable	224,023	207,654
Other non-financial payables	**10,656,066**	**1,932,891**
Total trade and other payables	**12,934,083**	**3,255,491**

19 Other Taxes Payable

	30 September 2010	31 December 2009
VAT	1,301,107	207,737
Unified social tax	54,664	42,532
Personal income tax	32,537	24,291
Property tax	10,952	11,514
Land tax	2,763	2,039
Transport tax	1,476	2,595
Water tax	58	72
Other taxes	337	2,484
Total other taxes payable	**1,403,894**	**293,264**

Included in VAT payable at 30 September 2010 is VAT related to advances paid to suppliers and subcontractors in amount of RR 589,492 (31 December 2009: RR 130,303).

20 Provisions for Liabilities and Charges

	Short-term part of warranty provision	Long-term part of warranty provision	Provision for legal claims	Unused vacation allowance
At 1 January 2009	**27,111**	**—**	**21,919**	**150,306**
Additional provisions	5,976	5,458	17,265	—
Unused amounts reversed	—	—	(3,587)	(37,743)
Business combinations	60	—	179	—
At 30 September 2009	**33,147**	**5,458**	**35,776**	**112,563**
At 1 January 2010	**33,771**	**11,550**	**35,753**	**140,222**
Additional provisions	3,099	18,020	4,727	—
Unused amounts reversed	—	—	—	(17,267)
Business combinations	—	—	—	23,864
At 30 September 2010	**36,870**	**29,570**	**40,480**	**146,819**

21 Dividends

During the nine months ended 30 September 2010, dividends were accrued only to the holders of preference shares in the subsidiaries in amount of RR 145,937 (nine months ended 30 September 2009: RR 209), but no dividends were paid to the shareholders or non-controlling interest holders of common shares. As a result, allocations of net assets to non-controlling interest holders of preference shares and common shares were reflected in this consolidated condensed interim financial information.

22 Income Taxes

Income tax expense for the nine months ended 30 September 2010 and 2009 included:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current tax	186,462	252,666
Deferred tax	142,669	(115,334)
Total income tax expense	**329,131**	**137,332**

Most companies of the Group were subject to tax rate of 20% on taxable profits in the Russian Federation for the nine months period ended 30 September 2010.

23 Revenue

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue from construction contracts	7,115,132	1,813,336
Sales of pumps and spare parts	4,967,317	4,190,669
Sales of modular equipment	3,093,235	2,884,546
Sales of repair services for equipment	450,510	496,394
Sales of electric motors	157,356	73,010
Sales of products, work and services of auxiliary units	51,616	31,934
Sales of other services and goods	322,555	285,151
Total revenue	**16,157,721**	**9,775,040**

24 Cost of Sales

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Supplies and raw materials	7,860,122	3,345,113
Labour costs	1,817,281	1,362,903
Cost of goods sold	1,491,898	1,177,555
Construction and installation works of subcontractors	391,090	360,564
Depreciation and amortisation	193,961	199,740
Utilities	156,250	113,942
Defined benefits scheme expense	29,499	—
Warranty provision	22,376	11,434
Impairment of property, plant and equipment and intangible assets	—	14,320
Provision for obsolete inventories	(112,560)	93,887
Change in work in progress and finished goods	(185,116)	63,082
Other expenses	634,821	355,216
Total cost of sales	**12,299,622**	**7,097,756**

25 Distribution and Transportation Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	158,611	152,592
Transport expenses	98,105	95,419
Agency services	25,630	2,508
Packaging expenses	22,963	17,376
Advertising	16,753	7,387
Insurance	12,582	11,772
Entertaining costs and business trip expenses	8,983	14,154
Depreciation and amortisation	6,645	8,935
Customs duties	6,034	9,492
Products certification	3,130	2,043
Capital assets repair and maintenance	3,084	2,381
Defined benefits scheme expense	2,577	—
Lease	719	8,565
Other expenses	32,565	34,930
Total distribution and transportation expenses	**398,381**	**367,554**

26 General and Administrative Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	841,174	772,206
Depreciation and amortisation	66,293	49,274
Taxes and duties	85,648	50,948
Audit and consultancy services	80,186	94,933
Bank services	60,097	29,729
Stationary and office maintenance	38,294	34,874
Entertaining costs and business trip expenses	34,561	23,874
Property, plant and equipment repair and maintenance	26,216	20,181
Security	25,980	22,483
Telecommunication services	19,905	19,049
Insurance	18,984	12,846
Training and recruitment	8,677	6,210
Rent	6,531	14,750
Provision for VAT receivable	4,727	29,991
Defined benefits scheme expense/(income)	13,754	(13,335)
Provision for legal claims	(8,891)	13,678
Provision for impairment of accounts receivable	(35,539)	57,934
Other expenses	87,197	78,066
Total general and administrative expenses	**1,373,794**	**1,317,691**

27 Other Operating Expenses, Net

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Charity, social expenditures	39,283	35,417
Impairment of taxes receivable	13,275	—
Fines and late payment interest under contracts	11,021	3,677
Depreciation of social assets	473	2,024
(Gain)/loss on sales of inventories	(318)	14,894
(Gain)/loss on transactions with securities	(5,271)	274
Foreign exchange (gain)/loss, net	(8,338)	10,962
(Gain)/loss from disposal of property, plant and equipment and intangible assets	(15,704)	4,929
Investments impairment provision	—	354
Other expenses, net	19,529	17,962
Total other operating expenses, net	**53,950**	**90,493**

28 Finance Income

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Interest income	51,093	46,611
Foreign exchange income, net	—	3,169
Total finance income	**51,093**	**49,780**

29 Finance Costs

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Interest expenses	662,525	652,399
Finance lease expenses	2,831	5,916
Effect of discounting of financial instruments	2,178	—
Foreign exchange loss, net	666	—
Total finance costs	**668,200**	**658,315**

30 Balances and Transactions with Related Parties

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

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

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category of related parties comprises individuals who are the ultimate owners of shares in HMS-Holding LLC and in the Company (Note 1),

30 Balances and Transactions with Related Parties (Continued)

who are also key management of the Group. Category Participants consists of HMS-Holding LLC and other legal entities where those individuals hold their stakes.

	30 September 2010		
Balances with related parties	**Participants**	**Associates**	**Other**
Loans issued	16,852	—	1,210
Accounts receivable	32,709	14,195	835
Accounts payable	28,000	7,429	13,322

	31 December 2009		
Balances with related parties	**Participants**	**Associates**	**Other**
Loans issued	95,074	—	—
Accounts receivable	—	6,637	—
Accounts payable	—	12,236	36,913

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

	Nine months ended 30 September 2010		
Income/(expenses) on transactions with related parties	**Participants**	**Associates**	**Other**
Sales of goods and finished products	—	377	—
Sales of raw materials	—	183	—
Sales of services	—	94	—
Purchase of services	—	(4,286)	—
Purchase of goods	—	(33,850)	—
Purchase of raw materials	—	(5,962)	—
Finance lease expenses	—	(42)	—
Interest income	5,479	—	—

	Nine months ended 30 September 2009		
Income/(expenses) on transactions with related parties	**Participants**	**Associates**	**Other**
Sales of goods and finished products	—	1,661	—
Sales of raw materials	—	380	—
Sales of services	—	—	—
Purchase of services	—	(24,893)	—
Purchase of goods	—	(29,951)	—
Purchase of raw materials	—	(23,923)	—
Finance lease expenses	—	(35)	—
Interest income	8,267	—	—

For the nine months ended 30 September 2010, the Group did not receive any loans from related parties (for the nine months ended 30 September 2009: RR 8,138 with a weighted average interest rate of 14%). For the nine months ended 30 September 2010, the Group issued loans to related parties for a total of RR 400 with a weighted average interest rate of 15.5% (for the nine months ended 30 September 2009: RR 300 with a weighted average interest rate of 14%).

Key management compensation. Key management compensation amounted to RR 111,539 for the nine months ended 30 September 2010 (for the nine months ended 30 September 2009: RR 71,322) and included short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

30 Balances and Transactions with Related Parties (Continued)

For the nine months ended 30 September 2010, preference dividends of RR 133,680 were accrued and paid by the Company's subsidiaries to the holders of non-controlling interests who are ultimate shareholders of the Group and the members of key management (for the nine months ended 30 September 2009: RR 0).

31 Contingencies and Commitments

(i) Legal proceeding

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

(ii) Tax legislation

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

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

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

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

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

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

31 Contingencies and Commitments (Continued)

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

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks at 30 September 2010 of RR 1,975 (31 December 2009: RR 1,975). These exposures primarily relate to bonuses to employees and return of goods.

(iii) Environmental matters

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

(iv) Insurance policies

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

(v) Contractual commitments

At 30 September 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 100,994 (31 December 2009: RR 33,168) and for the purchase of other intangible assets from the Group's associate for RR 602,780 (31 December 2009: RR 0).

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

By 15 February 2011, the Group is due to pledge non-current assets with a pledge value RR 1,273,000, 43% of Tomskgazstroy OJSC shares, 49% of SKMN shares, 95.38% of EPF "SIBNA" Inc. OJSC shares, 100% of NRS shares, 40% of Dimitrovgradkhimmash OJSC shares as a security for long-term borrowings.

(vi) Loan covenants

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

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

32 Segment Information

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

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

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

	30 September 2010	30 September 2009
1	HMS Pumps OJSC (formerly Livhydromash OJSC)	Livhydromash OJSC
2	LPKC LLC	LPKC LLC
3	HMS Household Pumps OJSC (formerly Electrodvigatel OJSC)	Electrodvigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)
8	SPA Gydromash CJSC	SPA Gydromash CJSC
9	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
10	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
11	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC
12	Plant Promburvod OJSC	Plant Promburvod OJSC
13	—	Hydromash-Industria LLC

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

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

32 Segment Information (Continued)

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

1	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC
2	HYDROMASHSERVICE CJSC	—
3	Tomskgazstroy OJSC	Tomskgazstroy OJSC
4	Giprotumenneftegaz OJSC	—

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

1	HMS Group Management LLC (formerly Hydraulic Machines and Systems Management LLC)	Hydraulic Machines and Systems Management LLC
2	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)	GMS Group OJSC (formerly Hydraulic Machines and Systems Group LLC)
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	United Industrial Group LLC (no business)	United Industrial Group LLC (no business)
5	Sibservice LLC (no business)	Sibservice LLC (no business)
6	Hydromashkomplekt LLC	Hydromashkomplekt LLC
7	Business Centre Hydromash LLC	Business Centre Hydromash LLC
8	HMS-Promburvod CJSC	HMS-Promburvod CJSC

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

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

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

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

Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with IFRS..

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

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

32 Segment Information (Continued)

The segment information provided to the CODM for the reportable segments for the nine months ended 30 September 2010 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total	Consolidated for the nine months ended 30 September 2010
Revenue External, management report	7,598,280	4,003,980	4,392,305	134,086	16,128,651	**16,128,651**
Revenue Internal, management report	26,506	9,891	924	419,737	457,058	**457,058**
EBITDA, management report	1,501,646	422,258	262,251	81,602	2,267,757	**2,267,757***
Share of results of associates	(2,404)	11,675	—	—	9,271	**9,271**

The segment information provided to the CODM for the reportable segments for the nine months ended 30 September 2009 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total	Consolidated for the nine months ended 30 September 2009
Revenue External, management report	4,251,715	3,408,811	2,035,756	239,582	9,935,864	**9,935,864**
Revenue Internal, management report	75,563	2,687	—	396,782	475,032	**475,032**
EBITDA, management report	645,486	672,003	145,928	63,385	1,526,802	**1,526,802**
Share of results of associates	(4,764)	27,684	—	—	22,920	**22,920**

The Group has decided to early adopt improvements to IFRS 8 issued in April 2009, which allow to the Group to not disclose information about segment assets and liabilities in this consolidated condensed interim financial information, since such information is not regularly provided to the CODM.

32 Segment Information (Continued)

Reconciliation of financial information analysed by CODM to corresponding information presented in this consolidated condensed interim financial information is presented below:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Total revenue for reportable segments	**16,585,709**	**10,410,896**
Less intersegment revenue	(457,058)	(475,032)
Adjustments related to revenue from construction contracts	29,070	(161,753)
Other adjustments	—	929
Total revenue, IFRS	**16,157,721**	**9,775,040**
EBITDA, management report	**2,267,757**	**1,526,802**
Adjustments related to revenue from construction contracts	29,070	(70,990)
Adjustments to recognise expenses in correct period	(28,956)	(24,984)
Eliminations and other adjustments	(16,460)	(9,472)
EBITDA, IFRS	**2,251,411**	**1,421,356**
Depreciation and amortisation	(267,373)	(257,949)
Non-monetary items*	101,412	(157,048)
Impairment of property, plant and equipment and intangible assets	—	(14,320)
Impairment of goodwill	—	(116,998)
Other operating expenses, net	(53,476)	(90,493)
Operating profit	**2,031,974**	**784,548**
Finance income	51,093	49,780
Finance costs	(668,200)	(658,315)
Share of results associates	9,271	22,920
Profit before income tax, IFRS	**1,424,138**	**198,933**

* Non-monetary items consists of provisions: provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, etc.

33 Subsequent Events

Borrowings. Subsequent to the statement of financial position date the Group's subsidiaries received long-term RR-denominated loans in amount of RR 756,323 from Sberbank and OJSC NOMOS-BANK, bearing interest rates of 8.75-10.50% and payable from November 2011 to April 2012. These loans are secured by guarantees issued by the companies of the Group. The Group also obtained a long-term EUR-denominated letter of credit of RR 63,844 payable in February 2014.

The Group's subsidiaries also received short-term loans of RR 100,000 and redeemed short-term loans of RR 452,850.

On the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates, the Group re-negotiated the decrease of interest rates for long-term loans 1, 2, 5 and 6 (Note 15) from 10.5% per annum to 9.55% per annum starting 1 December 2010.

Approval of additional share issue of the Company. On 28 December 2010, the Company registered an additional issue of 20,000,000,000 ordinary shares with a par value of 0.5 Russian Roubles by closed subscription in respect of H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED.

33 Subsequent Events (Continued)

Dividends. The Group's subsidiaries declared dividends to non-controlling interest holders in amount of RR 174,517.

Group reorganisation. In December 2010, the shareholders of H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED signed a shareholders' agreement, prescribing them till 31 January 2011 to contribute their shares in H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED into the share capital of a private Cyprus entity named HMS Technologies Ltd. In accordance with this agreement the group of shareholders comprising former shareholders of Hydroindustry LLC will have the right to appoint all members of the Boards of Directors of HMS Technologies Ltd. and of H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED, other than one director, and the group of shareholders comprising former shareholders of Hydromashinvest LLC will have the right to appoint one director to the Boards of Directors of HMS Technologies Ltd. and of H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED, who will oversee the control and revision function. As of the date of issuing of the consolidated condensed interim financial information the process of reorganisation has not been completed.

On 3 January 2011, H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. was renamed HMS Hydraulic Machines & Systems Group plc.

HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Financial Information (unaudited)

30 September 2010

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Report on review of consolidated condensed interim financial information

To the Board of Directors of HMS Hydraulic Machines & Systems Group plc:

Introduction

We have reviewed the accompanying consolidated condensed interim statement of financial position of HMS Hydraulic Machines & Systems Group plc (the "Company") and its subsidiaries (the "Group") at 30 September 2010 and the related consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of cash flows and consolidated condensed interim statement of changes in equity for the nine-month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

PricewaterhouseCoopers

PricewaterhouseCoopers Limited
Chartered Accounts

Limassol, 4 January 2011

HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Statement of Financial Position at 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 September 2010	31 December 2009
ASSETS			
Non-current assets:			
Property, plant and equipment	6	5,714,419	3,954,807
Other intangible assets	7	87,265	47,109
Goodwill	8	1,873,992	306,992
Investments in associates	10	501,453	507,293
Deferred income tax assets		93,412	53,992
Other long-term receivables		163,889	61,362
Total non-current assets		**8,434,430**	**4,931,555**
Current assets:			
Inventories	12	3,259,431	3,179,644
Trade and other receivables and other financial assets	13	10,953,752	2,778,048
Current income tax receivable		75,784	58,016
Prepaid expenses		46,230	36,213
Cash and cash equivalents	11	1,899,182	758,127
Restricted cash	11	3,768	905
		16,238,147	**6,810,953**
Non-current assets held for sale	14	96,255	—
Total current assets		**16,334,402**	**6,810,953**
TOTAL ASSETS		**24,768,832**	**11,742,508**

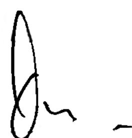
HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Statement of Financial Position at 30 September 2010 (unaudited) (Continued)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 September 2010	31 December 2009
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	36,154	36,154
Share premium	21	210,862	210,862
Share capital to be issued	21	6,356	6,356
Currency translation reserve		(215,099)	(168,051)
Retained earnings		2,454,819	1,480,712
Other reserves		122,841	37,035
Equity attributable to the Company's equity holders		**2,615,933**	**1,603,068**
Non-controlling interest		**1,493,756**	**669,631**
TOTAL EQUITY		**4,109,689**	**2,272,699**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	15	4,134,881	3,429,475
Finance lease liability		341	8,479
Deferred income tax liability		607,813	197,307
Pension liability	16	293,589	125,407
Long-term payables		49,234	—
Provisions for liabilities and charges	20	29,570	11,550
Total non-current liabilities		**5,115,428**	**3,772,218**
Current liabilities:			
Trade and other payables	18	12,906,129	3,255,533
Short-term borrowings	15	941,722	1,879,914
Provisions for liabilities and charges	20	224,174	209,760
Finance lease liability		11,053	13,094
Pension liability	16	9,492	20,922
Current income tax payable		47,228	25,069
Other taxes payable	19	1,403,917	293,299
Total current liabilities		**15,543,715**	**5,697,591**
TOTAL LIABILITIES		**20,659,143**	**9,469,809**
TOTAL EQUITY AND LIABILITIES		**24,768,832**	**11,742,508**

Approved for issue and signed on behalf of the Board of Directors on 4 January 2011.



A.V. Molchanov
Director

K.V. Molchanov
Director

The accompanying notes on pages F-127 to F-159 are an integral part of this consolidated condensed interim financial information.

HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Statement of Comprehensive Income for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue	23	16,157,721	9,775,040
Cost of sales	24	(12,299,622)	(7,097,756)
Gross profit		**3,858,099**	**2,677,284**
Distribution and transportation expenses	25	(398,381)	(367,554)
General and administrative expenses	26	(1,374,456)	(1,318,259)
Other operating expenses, net	27	(54,014)	(90,515)
Impairment of goodwill	8	—	(116,998)
Operating profit		**2,031,248**	**783,958**
Finance income	28	45,614	41,564
Finance costs	29	(668,200)	(658,315)
Share of results of associates	10	9,271	22,920
Profit before income tax		**1,417,933**	**190,127**
Income tax expense	22	(329,124)	(137,954)
Profit for the period		**1,088,809**	**52,173**
Profit attributable to:			
Equity holders of the Company		994,174	(46,100)
Non-controlling interest		94,635	98,273
Profit for the period		**1,088,809**	**52,173**
Currency translation differences		(62,151)	(99,812)
Currency translation differences of associates	10	1,690	(3,514)
Other comprehensive loss for the period		**(60,461)**	**(103,326)**
Total comprehensive income/(loss) for the period		**1,028,348**	**(51,153)**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		947,126	(121,713)
Non-controlling interest		81,222	70,560
Total comprehensive income/(loss) for the period		**1,028,348**	**(51,153)**
Basic and diluted earnings per ordinary share for profit/(loss) attributable to the ordinary shareholders	21	**9.690**	**(0.449)**

The accompanying notes on pages F-127 to F-159 are an integral part of this consolidated condensed interim financial information.

HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Statement of Cash Flows for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Cash flows from operating activities			
Profit before income tax		1,417,933	190,127
Adjustments for:			
Depreciation and amortisation	6,7	267,373	257,949
(Gain)/loss from disposal of property, plant and equipment and intangible assets	27	(15,704)	4,929
Finance income	28	(45,614)	(46,611)
Finance costs	29	667,534	658,315
Pension expenses/(income)	16	45,830	(13,335)
Warranty provision	24	22,376	11,434
Impairment of taxes receivable	27	13,275	—
Interest expense related to construction contracts		16,330	—
Provision for impairment of accounts receivable	26	(35,527)	57,934
Provision for obsolete inventories	24	(112,560)	93,887
Foreign exchange translation differences	28,29	666	(3,169)
Provisions for legal claims	26	(8,891)	13,678
Provision for VAT receivable	26	4,727	29,991
Share of results of associates	10	(9,271)	(22,920)
Impairment of goodwill	8	—	116,998
Impairment of property, plant and equipment and intangible assets	6,7,24	—	14,320
Loss on disposal of subsidiaries		4,360	—
Other non-cash items		(3,902)	905
Operating cash flows before working capital changes		**2,228,935**	**1,364,432**
Decrease/(increase) in inventories		43,791	(71,152)
Increase in trade and other receivables		(7,622,759)	(31,631)
Increase in taxes payable		1,034,084	18,949
Increase/(decrease) in accounts payable and accrued liabilities		9,027,080	(509,513)
Restricted cash		(2,863)	(222)
Cash generated from operations		**4,708,268**	**770,863**
Income tax paid		(164,089)	(232,314)
Interest paid		(684,277)	(654,985)
Net cash from/(used in) operating activities		**3,859,902**	**(116,436)**
Cash flows from investing activities			
Repayment of loans advanced		67,289	56,509
Loans advanced		(5,337)	(154,131)
Proceeds from sale of property, plant and equipment		6,220	536
Interest received		18,175	18,693
Dividends received	10	15,288	9,385
Purchase of property, plant and equipment		(456,346)	(178,594)
Acquisition of associates	10	—	(122,756)
Acquisitions of subsidiaries, net of cash acquired	9	(2,339,457)	(239,806)
Proceeds from disposal of subsidiaries, net of cash disposed		7,475	—
Acquisition of intangible assets		(21,353)	(15,642)
Net cash used in investing activities		**(2,708,046)**	**(625,806)**
Cash flows from financing activities			
Repayments of borrowings		(7,283,499)	(3,630,625)
Proceeds from borrowings		7,492,040	4,365,128
Payment for finance lease		(10,179)	(13,057)
Acquisition of non-controlling interest in subsidiaries	9	(576,878)	(104,580)
Cash received from capital contribution		85,806	—
Cash received from additional share issue of subsidiary		428,420	—
Dividends paid to non-controlling shareholders of subsidiaries		(145,937)	(209)
Net cash (used in)/from financing activities		**(10,227)**	**616,657**
Net increase/(decrease) in cash and cash equivalents		**1,141,629**	**(125,85)**
Effect of exchange rate changes on cash and cash equivalents		**(574)**	**(7,773)**
Cash and cash equivalents at the beginning of the period		**758,127**	**669,482**
Cash and cash equivalents at the end of the period		**1,899,182**	**536,124**

The accompanying notes on pages F-127 to F-159 are an integral part of this consolidated condensed interim financial information.

HMS Hydraulic Machines & Systems Group plc

Consolidated Condensed Interim Statement of Changes in Equity for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

		Capital and reserves attributable to the equity holders of the Company								
	Note	Share capital	Share premium	Share capital to be issued	Other reserves	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009		**36,154**	**210,862**	**6,356**	**37,035**	**(122,942)**	**1,820,958**	**1,988,423**	**648,114**	**2,636,537**
Profit for the period		—	—	—	—	—	(46,101)	(46,101)	98,274	52,173
Other comprehensive loss										
Change in cumulative currency translation reserve		—	—	—	—	(72,098)	—	(72,098)	(27,714)	(99,812)
Share of comprehensive loss from associates		—	—	—	—	(3,514)	—	(3,514)	—	(3,514)
Total comprehensive income/(loss) for the period		**—**	**—**	**—**	**—**	**(75,612)**	**(46,101)**	**(121,713)**	**70,560**	**(51,153)**
Distribution to non-controlling shareholders of the Group's subsidiaries	21	—	—	—	—	—	—	—	(209)	(209)
Allocation of net assets to non-controlling shareholders of the Group's subsidiaries	21	—	—	—	—	—	(168)	(168)	168	—
Business combinations	9	—	—	—	—	—	—	—	9,335	9,335
Acquisition of non-controlling interest in subsidiaries	9	—	—	—	—	—	(40,917)	(40,917)	(63,663)	(104,580)
Disposal of non-controlling interest in subsidiaries	9	—	—	—	—	—	(77,380)	(77,380)	77,380	—
Balance at 30 September 2009		**36,154**	**210,862**	**6,356**	**37,035**	**(198,554)**	**1,656,392**	**1,748,245**	**741,685**	**2,489,930**
Balance at 1 January 2010		**36,154**	**210,862**	**6,356**	**37,035**	**(168,051)**	**1,480,712**	**1,603,068**	**669,631**	**2,272,699**
Profit for the period		—	—	—	—	—	994,174	994,174	94,635	1,088,809
Other comprehensive income/(loss)										
Change in cumulative currency translation reserve		—	—	—	—	(48,738)	—	(48,738)	(13,413)	(62,151)
Share of comprehensive income from associates						1,690	—	1,690	—	1,690
Total comprehensive income/(loss) for the period		**—**	**—**	**—**	**—**	**(47,048)**	**994,174**	**947,126**	**81,222**	**1,028,348**
Capital contributions from equity holders of the Company		—	—	—	85,806	—	—	85,806	—	85,806
Distribution to non-controlling interest of the Group's subsidiaries	21	—	—	—	—	—	—	—	(145,937)	(145,937)
Allocation of net assets to non-controlling interest of the Group's subsidiaries	21	—	—	—	—	—	(118,143)	(118,143)	118,143	—
Business combinations	9	—	—	—	—	—	—	—	1,445,651	1,445,651
Acquisition of non-controlling interest in subsidiaries	9	—	—	—	—	—	15,894	15,894	(592,772)	(576,878)
Disposal of non-controlling interest in subsidiaries	9	—	—	—	—	—	82,182	82,182	(82,182)	—
Balance at 30 September 2010		**36,154**	**210,862**	**6,356**	**122,841**	**(215,099)**	**2,454,819**	**2,615,933**	**1,493,756**	**4,109,689**

The accompanying notes on pages F-127 to F-159 are an integral part of this consolidated condensed interim financial information.

1 General Information

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

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

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

In September 2010, the shareholders of Hydroindustry LLC, Hydromashinvest LLC and other entities owning shares of HMS-Holding LLC and of HMS Group OJSC signed a restructuring agreement. Under this agreement, the shares of those shareholders in the entities, holding shares in HMS-Holding LLC and direct shares in HMS Group OJSC, were contributed into the share capital of the Company in exchange for newly issued shares (Note 21), so that their shares in this new parent company reflect their respective effective shares in HMS-Holding LLC and in HMS Group OJSC before the restructuring. The shareholders' rights in respect of the Group's governance and control were contractually retained during the restructuring period. Due to the contractual agreement, the Company considers that it controls 100% of HMS Group OJSC at 30 September 2010 despite the fact that the legal transfer of certain shares (Note 21) occurred soon after the period end.

On 3 January 2011, the Company was renamed HMS Hydraulic Machines & Systems Group plc.

The Group's financial results for any individual quarter are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to market conditions and cyclical variations in capital expenditures spending by customers.

2 Basis of Preparation

This consolidated condensed interim financial information for the nine months ended 30 September 2010 has been prepared in accordance with IAS 34, *Interim financial reporting,* as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements of HMS Group OJSC for the year ended 31 December 2009 which have been prepared in accordance with International Financial Reporting Standards (IFRS).

As due to the restructuring procedures, described in Note 1, parent company of HMS Group has changed from HMS Group OJSC to HMS Hydraulic Machines & Systems Group plc, this condensed consolidated interim financial information of the Company is presented as if the Company existed at 1 January 2009 and through 2009.

3 Accounting Policies and Critical Accounting Estimates and Judgments

Accounting policies. The accounting policies applied are consistent with those of the annual consolidated financial statements of HMS Group OJSC for the year ended 31 December 2009, as described in those

3 Accounting Policies and Critical Accounting Estimates and Judgments (Continued)

annual consolidated financial statements, except as described in Note 4 and in paragraph *Income tax and unified social tax* below.

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

Income tax and unified social tax—income tax and unified social tax in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings of the Group and employees, respectively.

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

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

During the nine months ended 30 September 2010, the Group entered into a number of agreements for construction and delivery of oil-trunk pumping units and spare parts for the oil pipelines Purpe-Samotlor and Eastern Siberia Pacific Ocean, which are constructed to provide export of crude oil from Russia to the Asian Pacific markets, including Japan, China and Korea. Pumping units, which will be combined in pumping stations, constructed under these agreements, represent complex highly customised equipment consisting of unique components and parts. Under these agreements, the Group will also perform supervision of pumping units installation and pumping stations start-up process. Total budgeted revenue for these contracts at 30 September 2010 exceeds RR 12 billion. The contracts are expected to be executed during 2010-2013.

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

Method of accounting used for these contracts places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion. For the determination of the progress of the respective contract significant estimates include total contract costs, remaining cost to completion, contract risks and other judgments. Management of the respective operating divisions continually reviews all estimates involved in such construction contracts and adjusts them as necessary.

In accordance with Russian Civil Code and the terms of the respective agreements, in certain circumstances and where supply terms are not adhered to, the Group may be subject to penalties or rejection by the customer to accept the equipment. Management assesses such risk as remote and does not expect such conditions to result in a loss to the Group.

3 Accounting Policies and Critical Accounting Estimates and Judgments (Continued)

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

For the nine months ended 30 September 2010, the Group recognised revenue in respect of these contracts of RR 2,352,800. This amount is included as part of revenue from construction contracts (Note 23). At 30 September 2010, payables due to customers (Note 18) include the amount of RR 6,689,248, representing net amount of advances received from customers of RR 9,042,048 (excluding VAT) and recognised revenue of RR 2,352,800, and advances paid to suppliers and subcontractors (Note 13) include the amount of RR 3,199,836 (including VAT), related to these contracts.

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

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

At 30 September 2010, the Group performed an impairment test of property, plant and equipment and goodwill, recognised on acquisitions. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 5 years. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. As a result of this test, no impairment of property, plant and equipment or goodwill was identified.

4 Adoption of New or Revised Standards and Interpretations

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

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

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

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The revised IAS 27 has been applied by the Group.

4 Adoption of New or Revised Standards and Interpretations (Continued)

As a result of this application, there is no impact on prior periods in this consolidated condensed interim financial information.

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

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

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

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

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to

4 Adoption of New or Revised Standards and Interpretations (Continued)

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

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

5 New Accounting Pronouncements

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

(i) Adopted by the European Union

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

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

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

5 New Accounting Pronouncements (Continued)

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

Limited exemption from comparative IFRS 7 disclosures for first-time adopters—Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group concluded that this amendment does not have any effect on its consolidated financial statements.

(ii) Not adopted by the European Union

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

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

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on

5 New Accounting Pronouncements (Continued)

acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

6 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2009	**125,158**	**2,263,606**	**1,708,552**	**162,978**	**167,508**	**260,847**	**4,688,649**
Accumulated depreciation	**—**	**(153,191)**	**(462,575)**	**(70,206)**	**(74,304)**	**—**	**(760,276)**
Carrying amount at 1 January 2009	**125,158**	**2,110,415**	**1,245,977**	**92,772**	**93,204**	**260,847**	**3,928,373**
Acquisitions through business combinations (Note 9)	10,746	90,274	25,886	1,174	2,966	—	131,046
Additions	5,563	40,095	56,349	4,622	27,799	92,351	226,779
Transfers	—	85,204	36,697	—	1,843	(123,744)	—
Disposals	(5,098)	(462)	(1,695)	(158)	(1,499)	(28,698)	(37,610)
Impairment charge	—	(1,889)	(6,903)	—	(1,217)	(1,670)	(11,679)
Depreciation for the period	—	(52,595)	(147,780)	(19,133)	(22,239)	—	(241,747)
Translation to presentation currency	(2,219)	(27,004)	(17,952)	(723)	(1,315)	(2,115)	(51,328)
Carrying amount at 30 September 2009	**134,150**	**2,244,038**	**1,190,579**	**78,554**	**99,542**	**196,971**	**3,943,834**
Cost at 30 September 2009	**134,150**	**2,449,461**	**1,800,471**	**166,330**	**195,501**	**198,642**	**4,944,555**
Accumulated depreciation and impairment	**—**	**(205,423)**	**(609,892)**	**(87,776)**	**(95,959)**	**(1,671)**	**(1,000,721)**
Cost at 1 January 2010	**137,730**	**2,510,359**	**1,866,313**	**167,577**	**202,145**	**145,831**	**5,029,955**
Accumulated depreciation	**—**	**(227,807)**	**(653,444)**	**(90,850)**	**(102,120)**	**(927)**	**(1,075,148)**
Carrying amount at 1 January 2010	**137,730**	**2,282,552**	**1,212,869**	**76,727**	**100,025**	**144,904**	**3,954,807**
Acquisitions through business combinations (Note 9)	8,293	1,302,442	102,088	10,548	106,981	16,801	1,547,153
Additions	8,127	12,970	99,588	21,211	40,236	403,439	585,571
Transfers	—	51,821	30,936	—	1,143	(83,900)	—
Assets of disposal group classified as held for sale	—	(94,562)	(1,533)	(160)	—	—	(96,255)
Disposals	—	(4,303)	(4,679)	(936)	(4,162)	(5,458)	(19,538)
Depreciation for the period	—	(69,551)	(128,232)	(17,457)	(33,751)	—	(248,991)
Translation to presentation currency	524	(2,079)	339	(2,031)	(3,218)	(1,863)	(8,328)
Carrying amount at 30 September 2010	**154,674**	**3,479,290**	**1,311,376**	**87,902**	**207,254**	**473,923**	**5,714,419**
Cost at 30 September 2010	**154,674**	**3,768,265**	**2,076,511**	**193,196**	**334,454**	**473,923**	**7,001,023**
Accumulated depreciation and impairment	**—**	**(288,975)**	**(765,135)**	**(105,294)**	**(127,200)**	**—**	**(1,286,604)**

At 30 September 2010, the Group's property, plant and equipment for a total of RR 865,607 had been pledged as security for certain borrowings (31 December 2009: RR 1,009,149) (Note 15).

Construction-in-progress includes advances for capital expenditures for a total of RR 164,356 at 30 September 2010 (31 December 2009: RR 49,843).

At 30 September 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 100,994 (31 December 2009: RR 33,168).

Due to impairment indicators occurred at the end of 2009 and during 2010 the impairment test was performed for certain cash-generating units (CGUs).

6 Property, Plant and Equipment (Continued)

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

Based on the results of impairment tests the Group did not recognise any impairment loss at 30 September 2010 and for the nine month period then ended (at 30 September 2009 and for the nine month period then ended: RR 11,679 for property, plant and equipment and RR 2,641 for other intangible assets related to Electrodvigatel OJSC).

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

	30 September 2010	30 September 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 12% to 18%	From 16% to 22%

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

7 Other Intangible Assets

	Patents	Licensed technology	Acquired software license	Customer relationships	Trademarks	Websites	Total
Cost at 1 January 2009	**12,576**	**13,097**	**18,429**	**7,595**	**14,528**	**70**	**66,295**
Accumulated amortisation and impairment	**(550)**	**(4,610)**	**(4,661)**	**(2,586)**	**(434)**	**(15)**	**(12,856)**
Carrying amount at 1 January 2009	**12,026**	**8,487**	**13,768**	**5,009**	**14,094**	**55**	**53,439**
Acquisitions through business combinations (Note 9)	—	2,390	—	—	—	—	2,390
Additions	19	2,794	8,230	—	3,935	1,134	16,112
Disposals	(5)	(1,265)	(635)	(349)	—	—	(2,254)
Impairment charge	—	(377)	(2,264)	—	—	—	(2,641)
Amortisation for the period	(2,422)	(3,103)	(4,542)	(3,862)	(2,233)	(40)	(16,202)
Translation to presentation currency	(1,325)	(18)	(17)	456	(812)	(4)	(1,720)
Carrying amount at 30 September 2009	**8,293**	**8,908**	**14,540**	**1,254**	**14,984**	**1,145**	**49,124**
Cost at 30 September 2009	**10,842**	**14,936**	**25,762**	**4,966**	**17,361**	**1,198**	**75,065**
Accumulated amortisation and impairment	**(2,549)**	**(6,028)**	**(11,222)**	**(3,712)**	**(2,377)**	**(53)**	**(25,941)**
Cost at 1 January 2010	**11,015**	**15,955**	**26,767**	**4,893**	**18,108**	**1,201**	**77,939**
Accumulated amortisation and impairment	**(3,164)**	**(6,886)**	**(13,172)**	**(4,281)**	**(3,238)**	**(89)**	**(30,830)**
Carrying amount at 1 January 2010	**7,851**	**9,069**	**13,595**	**612**	**14,870**	**1,112**	**47,109**
Acquisitions through business combinations (Note 9)	13	102	5,014	—	33,826	—	38,955
Additions	121	5,824	15,354	—	—	—	21,299
Disposals	(112)	(245)	(1,239)	—	—	—	(1,596)
Amortisation for the period	(1,446)	(4,067)	(7,894)	(612)	(4,258)	(105)	(18,382)
Translation to presentation currency	(208)	(11)	(93)	—	192	—	(120)
Carrying amount at 30 September 2010	**6,219**	**10,672**	**24,737**	**—**	**44,630**	**1,007**	**87,265**
Cost at 30 September 2010	**10,316**	**19,487**	**41,002**	**—**	**52,194**	**1,201**	**124,200**
Accumulated amortisation and impairment	**(4,097)**	**(8,815)**	**(16,265)**	**—**	**(7,564)**	**(194)**	**(36,935)**

8 Goodwill

Movements in goodwill on acquisition of the subsidiaries:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Gross book value at 1 January	**423,990**	**306,682**
Accumulated impairment at 1 January	(116,998)	—
Carrying amount at 1 January	**306,992**	**306,682**
Acquisitions of subsidiaries (Note 9)	1,571,519	117,308
Disposals of subsidiaries (Note 9)	(4,519)	—
Impairment of goodwill	—	(116,998)
Carrying amount at 30 September	**1,873,992**	**306,992**
Gross book value	**1,990,990**	**423,990**
Accumulated impairment losses	(116,998)	(116,998)
Carrying amount at 30 September	**1,873,992**	**306,992**

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

	30 September 2010	31 December 2009 and 30 September 2009
Gyprotyumenneftegaz OJSC	1,571,519	—
EPF "SIBNA" Inc. JSC	117,308	117,308
Trest Sibkomplektmontazhnaladka OJSC	95,691	95,691
Institute Rostovskiy Vodokanalproekt OJSC	72,717	72,717
Tomskgazstroy OJSC	16,757	16,757
Gydromash-Industria LLC		4,519
Total carrying amount of goodwill	**1,873,992**	**306,992**

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

Based on the results of these calculations the Group concluded that no impairment charge was required at 30 September 2010.

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

	30 September 2010	30 September 2009
Growth rate beyond five years	3%	3%
Pre-tax discount rate	From 12% to 18%	From 16% to 22%

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

As a result of impairment tests performed at 30 September 2009 an impairment loss in relation to Trest Sibkomplektmontazhnaladka OJSC (RR 94,881) and Rostovskiy Vodokanalproekt OJSC (RR 22,117) was

8 Goodwill (Continued)

identified and recognised in consolidated condensed interim financial information of the Group for the nine months ended 30 September 2009.

9 Business Combinations

Acquisition of Giprotyumenneftegaz OJSC

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

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

The acquired company contributed revenue of RR 538,921 and profit after income tax of RR 10,909 to the Group for the period from the date of acquisition to 30 September 2010. Had the acquisition occurred on 1 January 2010, the revenue from the acquired business would have been RR 1,518,356 and profit after income tax would have been RR 76,002 for the nine months ended 30 September 2010.

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

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. Such assessments may change when identification and fair value measurment of identifiable intangible assets are complete. The provisional purchase price allocation for the acquisition is as follows:

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

9 Business Combinations (Continued)

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

Acquisition of EPF "SIBNA"

In June 2009, the Group acquired control over EPF "SIBNA" Inc. OJSC by increasing its share from 29.9% to 76.7% for purchase consideration of RR 247,896, paid in cash. The acquired entity's activity is the sales and repair oil and gas equipment, design of instrumentation technology. The acquired company contributed revenue of RR 50,976 and gain of RR 12,784 to the Group for the period from the date of acquisition to 30 September 2009. Had the acquisition occurred on 1 January 2009, the revenue from the acquired business would have been RR 118,817, and profit after income tax would have been RR 10,249 for the nine months ended 30 September 2009.

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

	Fair value
Property, plant and equipment	131,046
Intangible assets	2,390
Other long-term receivables	1,186
Inventories	62,415
Trade and other receivables	30,785
Cash and cash equivalents	8,090
Deferred tax liability	(16,445)
Pension liability	(2,724)
Trade and other payable	(9,946)
Pension liability	(494)
Other taxes payable	(3,937)
Fair value of net assets	**202,366**
Less: Minority interest	(9,335)
Less: Fair value of the interest in associate previously held	(62,443)
Fair value of acquired interest in net assets	**130,588**
Goodwill	117,308
Total purchase consideration	**247,896**
Less: cash and cash equivalents of subsidiaries acquired	(8,090)
Outflow of cash and cash equivalents on acquisition	**239,806**

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

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

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

Disposal of controlling interest in Hydromash-Industria LLC

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

9 Business Combinations (Continued)

Acquisition/disposal of non-controlling interest in subsidiaries

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

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

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

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

In September 2010, the Group acquired an additional 7.62% interest in GTNG for RR 417,982, paid in cash. As a result of this transaction, the Group increased its ownership interest in GTNG from 38.26% to 45.88% decreasing the non-controlling interest by RR 410,971. As a result of this transaction, the Group increased its ownership interest in SKMN from 79.63% to 82.14% decreasing the non-controlling interest by RR 9,483.

For the nine months ended 30 September 2010, other transactions with non-controlling interest resulted in the decrease of non-controlling interest by RR 2,828.

In January 2009, the Group acquired an additional 1.4% interest in SKMN for RR 1,900, paid in cash. As a result of this transaction, the Group increased its ownership interest in SKMN from 98.6% to 100% decreasing the non-controlling interest by RR 9,483.

During the nine months ended 30 September 2009, in a series of transactions the Group acquired an additional interest 4.36% in Tomskgazstroy OJSC for RR 40,077 paid in cash. As a result of these transactions, the Group increased its ownership interest in Tomskgazstroy OJSC from 62.01% to 66.37% decreasing the non-controlling interest by RR 17,216.

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

9 Business Combinations (Continued)

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

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

In September 2009, the Group transferred 99.53% of its interest in SPA Gydromash CJSC from HYDROMASHSERVICE CJSC to Nasosenergomash OJSC. As a result of this transaction, the Group decreased its ownership interest in SPA Gydromash CJSC from 99.53% to 82.89% increasing the non-controlling interest by RR 22,351.

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

During the nine months ended 30 September 2009, the Group transferred interest in Hydraulic Machines and Systems Management LLC between companies of the Group. As a result of these transactions, the Group increased its ownership interest in Hydraulic Machines and Systems Management LLC from 98.1% to 98.9% and decreased the non-controlling interest by RR 1,324.

10 Investments in Associates

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

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

Investments in associates at 30 September 2010 include goodwill of RR 113,195 (30 September 2009: RR 113,195).

The Group's investments in associates are as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Carrying amount at 1 January	**507,293**	**449,848**
Cost of acquisition of associates	—	122,756
Cost of disposal of associates	—	(11,582)
Reclassification due to acquisition of controlling interest	—	(62,443)
Dividends	(16,801)	(9,385)
Share of after tax results of associates	9,271	22,920
Translation to presentation currency	1,690	(3,514)
Carrying amount at 30 September	**501,453**	**508,600**

11 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	30 September 2010	31 December 2009
Cash on hand	923	723
RR denominated balances with banks	528,782	268,532
Foreign currency denominated balances with banks	59,164	107,088
RR denominated bank deposits	1,297,599	381,044
Other cash equivalents	12,714	740
Total cash and cash equivalents	**1,899,182**	**758,127**

At 30 September 2010, the closing balance of short-term bank deposits comprised short-term bank deposits in four banks with a 4.5-19.5% interest rate (2009: 1.0-13.0%—six banks).

Restricted cash

Restricted cash of RR 3,768 (31 December 2009: RR 905) represents minimum balances for settlement and corporate plastic cards accounts.

12 Inventories

	30 September 2010	31 December 2009
Raw materials and supplies	1,151,186	951,228
Inventory for implementation of construction contracts	634,711	1,072,281
Work in progress	810,921	414,879
Finished goods and goods for resale	596,113	838,670
Other inventories	182,259	127,087
Provision for obsolete inventories	(115,759)	(224,501)
Total inventories	**3,259,431**	**3,179,644**

At 30 September 2010, inventories of RR 466,776 were pledged as collateral for certain borrowings (31 December 2009: RR 527,890) (Note 15). The cost of inventories recognised as expense during the period and included in cost of sales is disclosed in Note 24.

13 Trade and Other Receivables and Other Financial Assets

	30 September 2010	31 December 2009
Trade receivables	2,736,696	1,507,542
Less: provision for impairment of trade receivables	(96,154)	(111,184)
Short-term loans issued	7,243	4,727
Bank promissory notes receivable	5,626	3,533
Government bonds	54,447	—
Bank deposit	556,515	24,518
Promissory notes receivable	—	2,706
Other receivables	76,175	80,105
Less: provision for impairment of other receivables	(29,974)	(23,189)
Receivable due from customers for construction work (Note 17)	876,663	154,388
Less: provision for receivable due from customers for construction work	(95,560)	(95,560)
Financial assets within trade and other receivables—net	**4,091,677**	**1,547,586**
Advances to suppliers and subcontractors	4,730,954	714,064
Less: provision for impairment of advances to suppliers	(44,328)	(52,069)
VAT receivable	2,186,088	585,890
Provision for VAT receivable	(24,002)	(32,802)
Other taxes receivable	13,363	15,379
Non-financial assets within other receivables—net	**6,862,075**	**1,230,462**
Total trade and other receivables	**10,953,752**	**2,778,048**

Included in VAT receivable at 30 September 2010 is VAT related to advances received from customers in amount of RR 1,824,673 (31 December 2009: RR 63,866).

14 Non-current Assets Held for Sale

At 30 September 2010, the assets classified as held for sale in the amount of RR 96,255 represented certain buildings, plant and equipment and transport which the Group intends to dispose of in the next twelve months in accordance with the approved plan of sale. Initially, this property was classified as part of property, plant and equipment. No loss was recognised on reclassification of this property as held for sale assets.

15 Borrowings

	Interest rate	Denominated in	Maturity	30 September 2010	31 December 2009
Long-term loans:					
Long-term loan 1	10.5%	RR	August 2012	800,000	800,000
Long-term loan 2	10.5%	RR	December 2012	500,000	500,000
Long-term loan 3	11.3%	RR	January 2014-May 2015	1,454,776	—
Long-term loan 4	8.75%	RR	February 2012	102,432	873,113
Long-term loan 5	10.5%	RR	April 2014	997,588	995,667
Long-term loan 6	10.5%	RR	May 2014	110,000	110,000
Long-term loan 7	MosPrime+3.5%	RR	December 2011	100,000	100,000
Long-term loan 8	MosPrime+5.35%	RR	December 2011	279,038	17,986
Long-term loan 9	0%	UAH	December 2011	2,681	—
Long-term loan 10	0%	RR	December 2015	—	14,005
Long-term loan 11	0%	RR	April 2016	—	10,560
Long-term loan 12	0%	RR	May 2016	—	50
Long-term loan 13	0%	RR	December 2016	—	8,094
				4,346,515	**3,429,475**
Less: current portion of long-term borrowings				(211,634)	—
Total long-term borrowings				**4,134,881**	**3,429,475**

	Interest rate	Denominated in	30 September 2010	31 December 2009
Short-term unsecured loans:				
Unsecured bank loan 1	15%	RR	—	1,050,000
Unsecured bank loan 2	MosPrime+4.7%	RR	—	62,500
Unsecured bank loan 3	8.75-16.5%	RR	—	388,121
Unsecured bank loan 4	10%	RR	2,160	—
Unsecured bank loan 6	LIBOR+8.75%	USD	—	238,929
Unsecured loan 5	15.5%	RR	—	33,000
Unsecured loan 7	15.5%	RR	—	1,131
Unsecured loan 8	15.5%	RR	28	—
			2,188	**1,773,681**
Short-term secured loans:				
Secured bank loan 1	16%	RR	1,924	3,230
Secured bank loan 2	16%	RR	—	40,988
Secured bank loan 3	10.75%	USD	—	30,299
Secured bank loan 4	23%	UAH	—	11,210
Secured bank loan 5	10.5%	RR	120,000	—
Secured bank loan 6	23%	RR	—	10,958
Secured bank loan 7	8.75-16.5%	RR	599,849	—
Secured bank loan 9	23%	BYR	3,435	2,202
			725,208	**98,887**
Current portion of long-term borrowings			211,634	
Interest on short-term borrowings			2,692	7,346
Short-term borrowings			**941,722**	**1,879,914**

15 Borrowings (Continued)

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

	30 September 2010	31 December 2009
RR	5,070,434	5,025,588
USD	—	269,895
BYR	3,487	2,272
UAH	2,682	11,634
Total borrowings	**5,076,603**	**5,309,389**

At 30 September 2010, the Group pledged property, plant and equipment and inventories in total amount of RR 865,607 and 466,776 (2009: RR 1,009,149 and RR 527,890), respectively. At 30 September 2010, the Group pledged 25% plus one share of HMS Neftemash OJSC as a security for certain borrowings. Pledged value of this interest was RR 1,376,302. The Group also pledged its 51% of ordinary shares in GTNG as a security for the Long-term loan 3, obtained for the acquisition of GTNG.

During the nine months ended 30 September 2010, interest rates on long-term borrowings were revised and decreased for 4-7% per annum on the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates.

At 30 September 2010 and 31 December 2009, the fair value of long-term and short-term borrowings approximated their carrying amount.

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

16 Retirement Benefit Obligations

The following amounts were recognised in the consolidated condensed interim statement of comprehensive income:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current service cost	8,957	9,272
Interest cost	13,243	12,650
Past service cost	1,277	(347)
Curtailment of a plan	(46,988)	—
Net actuarial loss/(gain) recognised during the period	69,341	(34,910)
Net periodic benefit expense/(income)	**45,830**	**(13,335)**

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

	30 September 2010	31 December 2009
Present value of defined benefit obligations	302,816	145,319
Unrecognised past service cost	265	1,010
Liability in the statement of financial position	**303,081**	**146,329**

17 Construction Contracts

During the nine months ended 30 September 2010, the construction contracts revenue was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined

17 Construction Contracts (Continued)

based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures represented below related to Group subsidiaries performed activities under construction contracts:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Construction contracts revenue	7,115,132	1,813,336
Contract cost expensed	(6,017,584)	(1,664,551)
Gross margin	**1,097,548**	**148,785**

	30 September 2010	31 December 2009
Advances from customers, related to construction contracts	279,351	140,738
Retentions	91,422	44,471

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

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	7,520,318	2,569,400
Aggregate amount of recognised profits	625,216	134,279
Aggregate amount of recognised losses	(31,007)	(1,097)
Less: Progress billings	(7,237,864)	(2,548,194)
Gross amount due from customers for contract work	**876,663**	**154,388**

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	4,135,875	1,206,334
Aggregate amount of recognised profits	1,270,900	298,218
Aggregate amount of recognised losses	(11,149)	(2,633)
Less: Progress billings	(12,634,611)	(1,665,390)
Gross amount due to customers for contract work	**(7,238,985)**	**(163,471)**

18 Trade and Other Payables

	30 September 2010	31 December 2009
Trade payables	2,133,860	1,264,490
Other payables	116,159	58,110
Financial trade and other payables	**2,250,019**	**1,322,600**
Advances from customers	1,565,489	1,561,765
VAT on advances from customers included in receivables due from/payables due to customers for construction work	1,627,569	—
Payables due to customers for construction work (Note 17)	7,238,985	163,471
Wages and salaries payable	224,067	207,697
Other non-financial payables	**10,656,110**	**1,932,933**
Total trade and other payable	**12,906,129**	**3,255,533**

19 Other Taxes Payable

	30 September 2010	31 December 2009
VAT	1,301,109	207,737
Unified social tax	54,681	42,549
Personal income tax	32,541	24,302
Property tax	10,952	11,514
Land tax	2,763	2,039
Transport tax	1,476	2,595
Water tax	58	72
Other taxes	337	2,491
Total other taxes payable	**1,403,917**	**293,299**

Included in VAT payable at 30 September 2010 is VAT related to advances paid to suppliers and subcontractors in amount of RR 589,492 (31 December 2009: RR 130,303).

20 Provisions for Liabilities and Charges

	Short-term part of warranty provision	Long-term part of warranty provision	Provision for legal claims	Unused vacation allowance
At 1 January 2009	**27,111**	**—**	**21,919**	**150,323**
Additional provisions	5,976	5,458	17,265	—
Unused amounts reversed	—	—	(3,587)	(37,751)
Business combinations	60	—	179	—
At 30 September 2009	**33,147**	**5,458**	**35,776**	**112,572**
At 1 January 2010	**33,771**	**11,550**	**35,753**	**140,236**
Additional provisions	3,099	18,020	4,727	—
Unused amounts reversed	—	—	—	(17,276)
Business combinations	—	—	—	23,864
At 30 September 2010	**36,870**	**29,570**	**40,480**	**146,824**

21 Share Capital, Other Equity Items and Earnings per Share

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

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

21 Share Capital, Other Equity Items and Earnings per Share (Continued)

Below are the details of share issues:

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

While the transfer of shares in HMS Group OJSC under the second additional issue occurred on 19 October 2010, this additional share issue was legally finalised with the Cyprus authorities on 8 December 2010. This issue is presented in the consolidated condensed interim statement of financial position at 30 September 2010 as share capital to be issued.

Dividends. During the nine months ended 30 September 2010, dividends were accrued only to the holders of preference shares in the subsidiaries in amount of RR 145,937 (nine months ended 30 September 2009: RR 209), but no dividends were paid to the shareholders or non-controlling interest holders of common shares. As a result, allocations of net assets to non-controlling interest holders of preference shares and common shares were reflected in this consolidated condensed interim financial information.

Earnings per share. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue during the nine months ended 30 September 2010 and 2009 was calculated as if the Company existed at 1 January 2009 and through 2009 with 102,600,000 issued ordinary shares.

Profit/(loss) for the nine months ended 30 September 2010 and 2009 from continuing operations attributable to ordinary shareholders is calculated as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Profit/(loss) for the period attributable to ordinary shareholders	994,174	(46,100)
Weighted average number of ordinary shares in issue (thousands)	102,600	102,600
Basic and diluted earnings per ordinary share (expressed in RR per share)	**9.690**	**(0.449)**

22 Income Taxes

Income tax expense for the nine months ended 30 September 2010 and 2009 included:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current tax	186,462	252,666
Deferred tax	142,662	(114,712)
Total income tax expense	**329,124**	**137,954**

Most companies of the Group were subject to tax rate of 20% on taxable profits in the Russian Federation for the nine months period ended 30 September 2010.

23 Revenue

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue from construction contracts	7,115,132	1,813,336
Sales of pumps and spare parts	4,967,317	4,190,669
Sales of modular equipment	3,093,235	2,884,546
Sales of repair services for equipment	450,510	496,394
Sales of electric motors	157,356	73,010
Sales of products, work and services of auxiliary units	51,616	31,934
Sales of other services and goods	322,555	285,151
Total revenue	**16,157,721**	**9,775,040**

24 Cost of Sales

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Supplies and raw materials	7,860,122	3,345,113
Labour costs	1,817,281	1,362,903
Cost of goods sold	1,491,898	1,177,555
Construction and installation works of subcontractors	391,090	360,564
Depreciation and amortisation	193,961	199,740
Utilities	156,250	113,942
Defined benefits scheme expense/(income)	29,499	—
Warranty provision	22,376	11,434
Impairment of property, plant and equipment and intangible assets	—	14,320
Provision for obsolete inventories	(112,560)	93,887
Change in work in progress and finished goods	(185,116)	63,082
Other expenses	634,821	355,216
Total cost of sales	**12,299,622**	**7,097,756**

25 Distribution and Transportation Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	158,611	152,592
Transport expenses	98,105	95,419
Agency services	25,630	2,508
Packaging expenses	22,963	17,376
Advertising	16,753	7,387
Insurance	12,582	11,772
Entertaining costs and business trip expenses	8,983	14,154
Depreciation and amortisation	6,645	8,935
Customs duties	6,034	9,492
Products certification	3,130	2,043
Capital assets repair and maintenance	3,084	2,381
Defined benefits scheme expense/(income)	2,577	—
Lease	719	8,565
Other expenses	32,565	34,930
Total distribution and transportation expenses	**398,381**	**367,554**

26 General and Administrative Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	841,740	772,741
Depreciation and amortisation	66,293	49,274
Taxes and duties	85,665	50,949
Audit and consultancy services	80,188	94,933
Bank services	60,111	29,739
Stationary and office maintenance	38,294	34,874
Entertaining costs and business trip expenses	34,561	23,874
Property, plant and equipment repair and maintenance	26,216	20,181
Security	25,980	22,483
Telecommunications services	19,905	19,049
Insurance	18,984	12,846
Training and recruitment	8,677	6,210
Rent	6,531	14,750
Provision for VAT receivable	4,727	29,991
Defined benefits scheme expense/(income)	13,754	(13,335)
Provision for legal claims	(8,891)	13,678
Provision for impairment of accounts receivable	(35,527)	57,934
Other expenses	87,248	78,088
Total general and administrative expenses	**1,374,456**	**1,318,259**

27 Other Operating Expenses, Net

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Charity, social expenditures	39,283	35,417
Impairment of taxes receivable	13,275	—
Fines and late payment interest under contracts	11,021	3,677
Depreciation of social assets	473	2,024
(Gain)/loss on sales of inventories	(318)	14,894
(Gain)/loss on transactions with securities	(5,271)	274
Foreign exchange (gain)/loss, net	(8,295)	10,894
(Gain)/loss from disposal of property, plant and equipment and intangible assets	(15,704)	4,929
Investments impairment provision	—	354
Other expenses, net	19,550	18,052
Total other operating expenses, net	**54,014**	**90,515**

28 Finance Income

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Interest income	45,614	38,395
Foreign exchange income, net	—	3,169
Total finance income	**45,614**	**41,564**

29 Finance Costs

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Interest expenses	662,525	652,399
Finance lease expenses	2,831	5,916
Effect of discounting of financial instruments	2,178	—
Foreign exchange loss, net	666	—
Total finance costs	**668,200**	**658,315**

30 Balances and Transactions with Related Parties

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

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

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category of related parties comprises individuals who are the ultimate owners of shares in the Company (Note 1), who are also key management of the Group.

	30 September 2010	
Balances with related parties	**Associates**	**Other**
Loans issued	—	1,210
Borrowings	—	28
Accounts receivable	14,195	843
Accounts payable	7,429	8,657

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

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

	Nine months ended 30 September 2010	
Income /expenses on transactions with related parties	**Associates**	**Other**
Sales of goods and finished products	377	—
Sales of raw materials	183	—
Sales of services	94	—
Purchase of services	(4,286)	—
Purchase of goods	(33,850)	—
Purchase of raw materials	(5,962)	—
Finance lease expenses	(42)	—

30 Balances and Transactions with Related Parties (Continued)

Income /expenses on transactions with related parties	Nine months ended 30 September 2009	
	Associates	Other
Sales of goods and finished products	1,661	—
Sales of raw materials	380	—
Sales of services	—	—
Purchase of services	(24,893)	—
Purchase of goods	(29,951)	—
Purchase of raw materials	(23,923)	—
Finance lease expenses	(35)	—

For the nine months ended 30 September 2010, the Group did not receive any loans from related parties (for the nine months ended 30 September 2009: RR 8,138 with a weighted average interest rate of 14%). For the nine months ended 30 September 2010, the Group issued loans to related parties for a total of RR 400 with a weighted average interest rate of 15.5% (for the nine months ended 30 September 2009: RR 300 with a weighted average interest rate of 14%).

Key management compensation

Key management compensation amounted to RR 111,539 for the nine months ended 30 September 2010 (for the nine months ended 30 September 2009: RR 71,322) and included short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

For the nine months ended 30 September 2010, preference dividends of RR 133,680 were accrued and paid by the Company's subsidiaries to the holders of non-controlling interests who are ultimate shareholders of the Group and the members of key management (for the nine months ended 30 September 2009: RR 0).

31 Contingencies and Commitments

(i) Legal proceeding

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

(ii) Tax legislation

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

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

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

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that

31 Contingencies and Commitments (Continued)

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

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

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

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

In addition to the above transfer pricing matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks at 30 September 2010 of RR 1,975 (31 December 2009: RR 1,975). These exposures primarily relate to bonuses to employees and return of goods.

(iii) Environmental matters

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

(iv) Insurance policies

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

31 Contingencies and Commitments (Continued)

(v) Contractual commitments

At 30 September 2010, the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 100,994 (31 December 2009: RR 33,168) and for the purchase of other intangible assets from the Group's associate for RR 602,780 (31 December 2009: RR 0).

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

By 15 February 2011, the Group is due to pledge non-current assets with a pledge value RR 1,273,000, 43% of Tomskgazstroy OJSC shares, 49% of SKMN shares, 95.38% of EPF "SIBNA" Inc. OJSC shares, 100% of NRS shares, 40% of Dimitrovgradkhimmash OJSC shares as a security for long-term borrowings.

(vi) Loan covenants

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

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

32 Segment Information

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

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

32 Segment Information (Continued)

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

	30 September 2010	30 September 2009
1	HMS Pumps OJSC (formerly Livhydromash OJSC)	Livhydromash OJSC
2	LPKC LLC	LPKC LLC
3	HMS Household Pumps OJSC (formerly Electrodvigatel OJSC)	Electrodvigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TD Sumskie nasosy LLC)
8	SPA Gydromash CJSC	SPA Gydromash CJSC
9	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
10	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
11	Institute Rostovskiy Vodokanalproekt OJSC	Institute Rostovskiy Vodokanalproekt OJSC
12	Plant Promburvod OJSC	Plant Promburvod OJSC
13	—	Hydromash-Industria LLC

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

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

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

1	Trest Sibkomplektmontaghnaladka OJSC	Trest Sibkomplektmontaghnaladka OJSC
2	HYDROMASHSERVICE CJSC	—
3	Tomskgazstroy OJSC	Tomskgazstroy OJSC
4	Giprotumenneftegaz OJSC	—

32 Segment Information (Continued)

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

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

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

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

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

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

Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with IFRS.

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

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

32 Segment Information (Continued)

The segment information provided to the CODM for the reportable segments for the nine months ended 30 September 2010 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total	Consolidated for the nine months ended 30 September 2010
Revenue External, Management Report	7,598,280	4,003,980	4,392,305	134,086	16,128,651	**16,128,651**
Revenue Internal, Management Report	26,506	9,891	924	419,737	457,058	**457,058**
EBITDA, Management Report	1,501,646	422,258	262,251	81,602	2,267,757	**2,267,757**
Share of results of associates	(2,404)	11,675	—	—	9,271	**9,271**

The segment information provided to the CODM for the reportable segments for the nine months ended 30 September 2009 is as follows:

Disclosures by segments	Industrial pumps	Modular equipment	EPC	All other segments	Total	Consolidated for the nine months ended 30 September 2009
Revenue External, management report	4,251,715	3,408,811	2,035,756	239,582	9,935,864	**9,935,864**
Revenue Internal, management report	75,563	2,687	—	396,782	475,032	**475,032**
EBITDA, management report	645,486	672,003	145,928	63,385	1,526,802	**1,526,802**
Share of results of associates	(4,764)	27,684	—	—	22,920	**22,920**

The Group has decided to early adopt improvements to IFRS 8 issued in April 2009, which allow to the Group to not disclose information about segment assets and liabilities in this consolidated condensed interim financial information, since such information is not regularly provided to the CODM.

32 Segment Information (Continued)

Reconciliation of financial information analysed by CODM to corresponding information presented in this consolidated condensed interim financial information is presented below:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Total revenue for reportable segments	**16,585,709**	**10,410,896**
Less intersegment revenue	(457,508)	(475,032)
Adjustments related to revenue from construction contracts	29,070	(161,753)
Other adjustments	—	929
Total revenue, IFRS	**16,157,721**	**9,775,040**
EBITDA, management report	**2,267,757**	**1,526,802**
Adjustments related to revenue from construction contracts	29,070	(70,990)
Adjustments to recognise expenses in correct period	(28,956)	(24,984)
Eliminations and other adjustments	(17,119)	(10,048)
EBITDA, IFRS	**2,250,752**	**1,420,780**
Depreciation and amortisation	(267,372)	(257,949)
Non-monetary items*	101,409	(159,064)
Impairment of property, plant and equipment and intangible assets	—	(14,320)
Impairment of goodwill	—	(116,998)
Other operating expenses, net	(53,541)	(88,491)
Operating profit	**2,031,248**	**783,958**
Finance income	45,614	41,564
Finance costs	(668,200)	(658,315)
Share of results associates	9,271	22,920
Profit before income tax, IFRS	**1,417,933**	**190,127**

* Non-monetary items consists of provisions: Inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, etc.

33 Subsequent Events

Borrowings. Subsequent to the statement of financial position date the Group's subsidiaries received long-term RR-denominated loans in amount of RR 756,323 from Sberbank and OJSC NOMOS-BANK, bearing interest rates of 8.75-10.50% and payable from November 2011 to April 2012. These loans are secured by guarantees issued by the companies of the Group. The Group also obtained a long-term EUR-denominated letter of credit of RR 63,844 payable in February 2014.

The Group's subsidiaries also received short-term loans of RR 100,000 and redeemed short-term loans of RR 452,850.

On the basis of contractual provisions of loan agreements which allow periodic revisions of interest rates, the Group re-negotiated the decrease of interest rates for long-term loans 1, 2, 5 and 6 (Note 15) from 10.5% per annum to 9.55% per annum starting 1 December 2010.

Dividends. The Group's subsidiaries declared dividends to non-controlling interest holders in amount of RR 174,517.

Group reorganisation. In December 2010, the shareholders of the Company signed a shareholders' agreement, prescribing them till 31 January 2011 to contribute their shares in the Company into the share capital of a private Cyprus entity named HMS Technologies Ltd. In accordance with this agreement the

33 Subsequent Events (Continued)

group of shareholders comprising former shareholders of Hydroindustry LLC will have the right to appoint all members of the Boards of Directors of HMS Technologies Ltd. and of the Company, other than one director, and the group of shareholders comprising former shareholders of Hydromashinvest LLC will have the right to appoint one director to the Boards of Directors of HMS Technologies Ltd. and of the Company, who will oversee the control and revision function. As of the date of issuing of the consolidated condensed interim financial information the process of reorganisation has not been completed.

Giprotyumenneftegaz OJSC

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31 December 2009

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Giprotyumenneftegaz OJSC:

We have audited the accompanying financial statements of Open Joint Stock Company Giprotyumenneftegaz (the "Company") which comprise the statements of financial position as of 31 December 2009 and 2008 and the statements of comprehensive income, statements of cash flows and statements of changes in equity for the two years ended 31 December 2009 and 2008 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2009 and 2008, and its financial performance and its cash flows for the each of the two years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

26 November 2010
Moscow, Russian Federation

Giprotyumenneftegaz OJSC

Statement of Financial Position
as of 31 December 2009 and 2008

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2009	31 December 2008	1 January 2008
ASSETS				
Non-current assets:				
Property, plant and equipment	7	1,420,631	1,424,877	1,462,213
Intangible assets	8	6,559	10,787	16,007
Other long-term receivables	13	1,083	1,235	2,626
Total non-current assets		**1,428,273**	**1,436,899**	**1,480,846**
Current assets:				
Inventories	10	20,737	22,314	28,627
Trade and other receivables	11	580,008	1,118,173	571,301
Other financial assets	12	709,767	205,417	275,094
Current income tax receivable		5	100	—
Prepaid expenses		5,351	5,911	5,526
Cash and cash equivalents	9	343,201	428,747	271,863
Restricted cash	9	146	121	—
Total current assets		**1,659,215**	**1,780,783**	**1,152,411**
TOTAL ASSETS		**3,087,488**	**3,217,682**	**2,633,257**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	20	1,407	1,407	1,407
Retained earnings		2,158,668	2,120,713	1,784,224
TOTAL EQUITY		**2,160,075**	**2,122,120**	**1,785,631**
LIABILITIES				
Non-current liabilities:				
Deferred income tax liability	21	170,898	226,306	279,813
Pension liability	14	48,795	31,028	27,814
Other long-term payables	16	—	6,846	32,209
Total non-current liabilities		**219,693**	**264,180**	**339,836**
Current liabilities:				
Trade and other payables	19	527,668	577,784	374,882
Provisions for liabilities and charges	17	33,257	39,308	36,956
Pension liability	14	18,779	1,889	1,467
Current income tax payable		21,897	65,703	39,473
Other taxes payable	18	106,119	146,698	55,012
Total current liabilities		**707,720**	**831,382**	**507,790**
TOTAL LIABILITIES		**927,413**	**1,095,562**	**847,626**
TOTAL LIABILITIES AND EQUITY		**3,087,488**	**3,217,682**	**2,633,257**

Approved for issue and signed on behalf of the Board of Directors on 26 November 2010.

N.N. Andreeva
Managing Director

B.V. Fraishteter
Deputy Managing Director
on Economics and Planning

The accompanying notes on pages F-167 to F-201 are an integral part of these financial statements.

Giprotyumenneftegaz OJSC

Statement of Comprehensive Income
for the years ended 31 December 2009 and 2008

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2009	2008
Revenue	22	1,997,212	2,875,108
Cost of sales	23	(1,674,137)	(2,119,889)
Gross profit		**323,075**	**755,219**
Distribution and transportation expenses	24	(2,640)	(707)
General and administrative expenses	25	(200,106)	(235,332)
Other operating expenses, net	26	(18,668)	(32,775)
Operating profit		**101,661**	**486,405**
Finance income		79,286	25,898
Profit before income tax		**180,947**	**512,303**
Income tax expense	21	(63,619)	(88,524)
Profit for the year		**117,328**	**423,779**
Other comprehensive income		—	—
Total comprehensive income for the year		**117,328**	**423,779**
Basic and diluted earnings per ordinary share for profit attributable to ordinary shareholders (in RR per share)	20	2,341	8,457
Basic and diluted earnings per preference share for profit attributable to preference shareholders (in RR per share)	20	2,341	8,457

The accompanying notes on pages F-167 to F-201 are an integral part of these financial statements.

Giprotyumenneftegaz OJSC

Statement of Cash Flows
for the years ended 31 December 2009 and 2008

(in thousands of Russian Roubles, unless otherwise stated)

	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		180,947	512,303
Adjustments for:			
Depreciation and amortisation	7, 8	95,163	101,386
Loss from disposal of property, plant and equipment and intangible assets	26	5,592	9,158
Finance income		(79,286)	(25,898)
Defined benefit scheme expenses	14	37,428	5,621
Provision for impairment of accounts receivable	25	6,655	25,468
Provision for obsolete inventories	23	2,734	1,431
Unused vacation provision	17	(6,051)	2,352
Operating cash flows before working capital changes		**243,182**	**631,821**
(Increase)/Decrease in inventories		(1,157)	4,882
Decrease/(Increase) in trade and other receivables		531,894	(549,690)
(Decrease)/Increase in taxes payable		(42,437)	91,785
(Decrease)/Increase in accounts payable and accrued liabilities		(58,341)	170,417
Restricted cash		(25)	(121)
Cash generated from operations		**673,116**	**349,094**
Income tax paid		(162,838)	(115,901)
Net cash from operating activities		**510,278**	**233,193**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		38	427
Loans advanced		(180,000)	—
Proceeds from loans advanced		—	70
Purchase of promissory notes		(500,000)	(130,520)
Proceeds from promissory notes		180,520	204,975
Increase in deposits		(550,000)	(75,000)
Proceeds from deposits		550,000	44,200
Interest received		74,416	26,051
Acquisition of intangible assets		(7,978)	(19,552)
Purchase of property, plant and equipment		(85,326)	(44,985)
Net cash (used in)/from investing activities		**(518,330)**	**5,666**
Cash flows from financing activities			
Dividends paid	20	(77,590)	(82,434)
Net cash used in financing activities		**(77,590)**	**(82,434)**
(Net decrease)/increase in cash and cash equivalents		**(85,642)**	**156,425**
Effect of exchange rate changes on cash and cash equivalents		**96**	**459**
Cash and cash equivalents at the beginning of the year	9	**428,747**	**271,863**
Cash and cash equivalents at the end of the year	9	**343,201**	**428,747**

The accompanying notes on pages F-167 to F-201 are an integral part of these financial statements.

Giprotyumenneftegaz OJSC

Statement of Changes in Equity
for the years ended 31 December 2009 and 2008

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Share capital	Retained earnings	Total equity
Balance at 1 January 2008		**1,407**	**1,784,224**	**1,785,631**
Profit for the year	20	—	423,779	423,779
Other comprehensive income		—	—	—
Total comprehensive income for the year		—	423,779	423,779
Dividends declared	20	—	(87,290)	(87,290)
Balance at 31 December 2008	20	**1,407**	**2,120,713**	**2,122,120**
Balance at 1 January 2009		**1,407**	**2,120,713**	**2,122,120**
Profit for the year	20	—	117,328	117,328
Other comprehensive income		—	—	—
Total comprehensive income for the year		—	117,328	117,328
Dividends declared	20	—	(79,373)	(79,373)
Balance at 31 December 2009	20	**1,407**	**2,158,668**	**2,160,075**

The accompanying notes on pages F-167 to F-201 are an integral part of these financial statements.

1 The Company and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the years ended 31 December 2009 and 2008 for Open Joint Stock Company Giprotyumenneftegaz (the "Company"). The Company's principal business activity is rendering design and engineering services to the oil and gas industry. The Company is the leading design and engineering entity servicing oil and gas companies located mainly in the Tyumen Region. The Company was incorporated as an Open Joint Stock Company in May 1994 and registered in the Russian Federation. The Company's registered address is 62 St. Respubliki st., Tyumen, Russian Federation.

2 Operating Environment of the Company

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.

(iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Debtors of the Company were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

Management is unable to predict all developments in the economic environment which could have an impact on the Company's operations and consequently what effect, if any, they could have on the future financial position of the Company.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by initial recognition of financial instruments based on fair value and property, plant and equipment based on fair value at the date of transition to IFRS (deemed cost) which is 1 January 2008 (Note 6). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 5).

Presentation currency. All amounts in these financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

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

The Company has recorded property, plant and equipment at fair value at the date of transition to IFRS and treated fair value as the deemed cost from that date.

To arrive at the fair value of property, plant and equipment as of the date of transition to IFRS, the Company used valuation performed by an independent professionally qualified appraiser. The effective date of the valuation was 1 January 2008.

3 Summary of Significant Accounting Policies (Continued)

Fair value was determined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets is determined as their market value.

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

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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

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

	Number of years
Buildings	3–59
Plant and equipment	1–15
Transport	2–11
Other	1–6

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

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

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

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

	Number of years
Patents	10–18
Licensed technology	1–5
Software licences	1–5
Trademarks	7

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

3 Summary of Significant Accounting Policies (Continued)

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

Financial liabilities. All financial liabilities of the Company fall into one measurement category: other financial liabilities.

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less or deposits with original maturity of more than three month which could be withdrawn on demand. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows.

3 Summary of Significant Accounting Policies (Continued)

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the statement of financial position date are included in other non-current assets.

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

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

Income taxes. The current income tax charge is calculated on the basis of the Russian tax legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised directly in other comprehensive income or directly in equity because it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

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

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

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

Provisions for liabilities and charges. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Uncertain tax positions. Management has assessed, based on its interpretation of the relevant tax legislation that it is probable that certain tax positions taken by the Company would not be sustained, if challenged by

3 Summary of Significant Accounting Policies (Continued)

the tax authorities. The assessment is based on the interpretation of tax law that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liability for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

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

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

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

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

Foreign currency translation. Functional currency of the Company is Russian Roubles ("RR").

At 31 December 2009 and 2008, the principal rates of exchange used for translating foreign currency balances were:

	2009	2008
1 USD = RR	30.2442	29.3804

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

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

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns and discounts. Sales of design and engineering services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3 Summary of Significant Accounting Policies (Continued)

Interest income is recognised on a time-proportion basis using the effective interest method.

Design and engineering contracts. The Company renders design and engineering services. The full cycle of design and engineering services is comprised of registration of land documents, survey services, laboratory research, preparation of project documentation, resulting in statutory examination of project documentation, supervision and subsequent registration of land. Under each tender process the Company has a separate contract and these contracts are recognised separately. Contract costs are recognised as expenses in the period in which they are incurred.

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

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

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

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

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

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

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

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Related party transactions

In the normal course of business the Company enters into transactions with its related parties. IAS 39, *Financial Instruments: Recognition and Measurement*, requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (Note 27).

(b) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Notes 21, 28.

(c) Pension obligations

The principal assumptions used in valuation of pension obligations are the discount rates used in determining the present value of post employment benefits, expected annual increase in salaries, inflation and mortality (Note 14). The Company's estimates for pension obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Company's estimates can be revised in the future, either negatively or positively. Pension obligations are periodically adjusted based on updated actuarial assumptions.

(d) Assessment of percentage of completion on design and engineering contracts

The Company uses percentage of costs incurred up to the statement of financial position date to total estimated costs to determine the stage of completion of the contract. The assessed stage of completion of the contract is used to determine the amount of revenue and expenses recognised in the reporting period. Actual total costs may differ from estimated total costs. The Company uses all relevant available data to determine amount of estimated total costs. The accuracy of estimates is assessed and estimates are corrected if necessary on an annual basis.

(e) Assessment of design and engineering revenue and receivables related to design and engineering contracts

Under IAS 11, *Construction Contracts* ("IAS 11"), design and engineering revenue is measured at the fair value of the consideration received or receivable. The amount of revenue and estimates should be revised as events occur and any uncertainties are resolved.

A variation is included in contract revenue when: it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and the amount of revenue can be reliably measured. Because of the frequency and large number of disputes that arise on design and engineering contracts and the length of time over which negotiations may stretch. The Company takes variations and claims into account only when they have actually been approved by the customer.

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

(f) Deferred income tax asset recognition

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

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

(g) Estimated impairment of property, plant and equipment and intangible assets

At 31 December 2009 and 2008, the Company performed an impairment test of property, plant and equipment and intangible assets. The recoverable amount of cash-generating unit ("CGU") was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering 5 years. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU (Note 7).

5 New Accounting Pronouncements

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The amendment is not expected to have any impact on the Company's financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company does not expect the amended standard to have any effect on its financial statements.

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

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

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the

5 New Accounting Pronouncements (Continued)

circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Company's financial statements.

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership ofthe land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.The Company does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendments will not have an impact on the Company's financial statements.

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

5 New Accounting Pronouncements (Continued)

Appendix to the standard. The Company does not expect the amendments to have any material effect on its financial statements.

Classification of Rights Issues—Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment is not expected to have any impact on the Company's financial statements.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated

5 New Accounting Pronouncements (Continued)

financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company is currently assessing the impact of the amendment on its financial statements.

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

Limited exemption from comparative IFRS 7 disclosures for first-time adopters—Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Company's financial statements.

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

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

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

6 Transition to IFRS

For all periods up to and including the year ended 31 December 2009, the Company prepared its financial statements in accordance with Russian Accounting Principles ("RAP"). These financial statements, for the year ended 31 December 2009, are the first the Company has prepared in accordance with IFRS.

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2008 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January

6 Transition to IFRS (Continued)

2008. This is the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its RAP statement of financial position at 1 January 2008 and its previously published RAP financial statements for the years ended 31 December 2009 and 2008.

Exceptions from retrospective application, which are mandatory under IFRS 1 are:

(a) The Company has recognised all cumulative actuarial gains and losses on pensions and other post-retirement benefits as at 1 January 2008, directly in equity. The Company has elected to disclose amounts required by paragraph 120A(p) of IAS 19, *Employee Benefits* ("IAS 19"), prospectively from the date of transition.

(b) Hedge accounting exception. The Company does not apply hedge accounting.

(c) Estimates exception. Estimates under IFRS at 1 January 2008 and 31 December 2008 should be consistent with estimates made for the same dates under previous RAP, unless there is evidence that those estimates were in error.

(d) Fair value as deemed cost exemption. The Company has elected to measure property, plant and equipment at fair value at 1 January 2008. The effect of the exemption was to increase the RAP carrying amount of property, plant and equipment by RR 1,300,368 to RR 1,462,213 under IFRS on the date of transition, 1 January 2008.

The reconciliation of total equity at 1 January 2008 (date of transition to IFRS) and at 31 December 2009 is as follows:

		31 December 2009	1 January 2008
Equity under RAP		**1,570,604**	**946,288**
Property, plant and equipment: fair value as deemed cost	a	1,232,110	1,300,368
Design and engineering contract revenue	b	(379,647)	(130,831)
Deferred tax: recognition under the balance sheet liability method	c	(164,262)	(270,078)
Retirement benefit obligation	d	(67,574)	(29,281)
Provision for unused vacation including employment taxes	e	(33,257)	(36,956)
Other		2,101	6,121
Equity under IFRS		**2,160,075**	**1,785,631**

The reconciliation of total comprehensive income for the years ended 31 December 2009 and 2008 is as follows:

		2009	2008
Profit under RAP		**374,067**	**396,778**
Design and engineering contract revenue	b	(265,082)	22,505
Deferred tax: recognition under the balance sheet liability method	c	57,081	49,729
Property, plant and equipment: fair value as deemed cost	a	(35,587)	(31,833)
Retirement benefit obligation	d	(34,657)	(3,636)
Other financial assets: impairment	f	25,869	(25,869)
Trade and other receivables: impairment	g	(8,611)	20,364
Other		4,248	(4,259)
Total comprehensive income for the year under IFRS		**117,328**	**423,779**

6 Transition to IFRS (Continued)

The significant adjustments for the IFRS transition were attributable to the following:

(a) Property, plant and equipment: depreciation, disposal and revaluation

Under RAP, property, plant and equipment were carried at historical cost and depreciated on a straight-line basis in respect of useful life under RAP. The fair value of property, plant and equipment was recognised under IFRS with different periods of useful lives to each group of property, plant and equipment than in RAP. The fair value of property, plant and equipment at 1 January 2008 was RR 1,462,213 and remeasurement adjustment equalled to RR 1,300,368. This fair value represents the assets' deemed cost and is the basis for subsequent depreciation.

The significant adjustments for the IFRS transition were attributable to the following (continued):

(b) Design and engineering contract revenue

This difference arises as a result of revenue recognition under percentage of completion method in accordance with IAS 11.

(c) Deferred tax

The adjustments were required to recognise deferred taxes under the balance sheet liability method for temporary differences detailed in Note 21. Additional deferred tax has been provided on the revaluation of properties as IFRS requires that deferred tax be recognised. Under RAP, no deferred tax was provided for the revaluation as the Company had no intention to dispose of the properties.

(d) Retirement benefit obligation

Under RAP, no pension liabilities were recognised. Under IFRS, pension liabilities are recognised on an actuarial basis in accordance with IAS 19. For the transition from RAP to IFRS the Company has applied the exemption in IFRS 1.D10 where all cumulative actuarial gains and losses at the date of transition to IFRS have been recognised directly in equity.

(e) Creation of provision for unused vacation, including employment taxes

This provision was created for unused vacation, which is not recorded in the Company's underlying RAP financial statements.

(f) Other financial assets: impairment

This adjustment was caused by the differences in accounting policies under RAP and IFRS, related to impairment of other financial assets.

(g) Trade and other receivables: impairment

This adjustment was caused by the differences in accounting policies under RAP and IFRS, related to impairment of trade and other receivables.

7 Property, Plant and Equipment

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

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Carrying amount at 1 January 2008	**47**	**1,263,438**	**81,277**	**13,969**	**87,362**	**16,120**	**1,462,213**
Additions	—	1,943	9,804	—	23,049	14,084	48,880
Transfers	—	—	—	—	—	—	—
Disposals	—	—	(3,488)	(344)	(710)	—	(4,542)
Depreciation for the period	—	(38,618)	(15,737)	(1,909)	(25,410)	—	(81,674)
Carrying amount at 31 December 2008	**47**	**1,226,763**	**71,856**	**11,716**	**84,291**	**30,204**	**1,424,877**
Cost at 31 December 2008	**47**	**1,265,381**	**87,190**	**13,593**	**109,326**	**30,204**	**1,505,741**
Accumulated depreciation	**—**	**(38,618)**	**(15,334)**	**(1,877)**	**(25,035)**	**—**	**(80,864)**
Carrying amount at 1 January 2009	**47**	**1,226,763**	**71,856**	**11,716**	**84,291**	**30,204**	**1,424,877**
Additions	8,262	7,233	30,860	6,225	22,485	10,261	85,326
Transfers	—	236	17,404	—	719	(18,359)	—
Disposals	—	—	(2,774)	(48)	(3,143)	—	(5,965)
Depreciation for the period	—	(38,828)	(16,306)	(2,255)	(26,218)	—	(83,607)
Carrying amount at 31 December 2009	**8,309**	**1,195,404**	**101,040**	**15,638**	**78,134**	**22,106**	**1,420,631**
Cost at 31 December 2009	**8,309**	**1,272,851**	**131,344**	**19,670**	**125,413**	**22,106**	**1,579,693**
Accumulated depreciation	**—**	**(77,447)**	**(30,304)**	**(4,032)**	**(47,279)**	**—**	**(159,062)**

Construction-in-progress includes advances for capital expenditures for a total of RR 13,949 at 31 December 2009 (31 December 2008: RR 15,834; 1 January 2008: RR 10,951).

Non-current assets impairment test

Due to impairment indicators identified at the end of 2008 and 2009 the impairment test was performed for the Company representing one CGU.

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

Based on the results of these calculations the Company concluded that no impairment charge was required.

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

	2010	2011	2012	2013	2014
Revenue growth rate for the forecast period	11.0%	20.5%	14.5%	13.4%	13.4%
EBITDA (calculated as profit for the year before depreciation, amortisation, finance income and income tax)	21.7%	23.8%	24.2%	24.7%	25.4%

7 Property, Plant and Equipment (Continued)

Other assumptions used for value-in-use calculation were as follows:

	2008	2009
Growth rate beyond five years	3.5%	3.5%
Pre-tax discount rate	19.6%	18.9%

Management determined budgeted gross margin based on past performance and its market expectations. The growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax and reflect specific risks relating to the Company.

8 Intangible Assets

Intangible assets and related accumulated amortisation consist of the following:

	Patents	Licensed technology	Acquired software license	Trade-marks	Total
Carrying amount at 1 January 2008	**1**	**93**	**15,882**	**31**	**16,007**
Additions	14	1	19,538	—	19,553
Disposals	—	(70)	(4,991)	—	(5,061)
Amortisation for the period	(1)	(20)	(19,687)	(4)	(19,712)
Carrying amount at 31 December 2008	**14**	**4**	**10,742**	**27**	**10,787**
Cost at 31 December 2008	**15**	**5**	**27,771**	**31**	**27,822**
Accumulated amortisation	**(1)**	**(1)**	**(17,029)**	**(4)**	**(17,035)**
Carrying amount at 1 January 2009	**14**	**4**	**10,742**	**27**	**10,787**
Additions	—	8	7,970	—	7,978
Disposals	—	—	(650)	—	(650)
Amortisation for the year	(1)	(3)	(11,547)	(5)	(11,556)
Carrying amount at 31 December 2009	**13**	**9**	**6,515**	**22**	**6,559**
Cost at 31 December 2009	**15**	**13**	**14,621**	**31**	**14,680**
Accumulated amortisation	**(2)**	**(4)**	**(8,106)**	**(9)**	**(8,121)**

9 Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	31 December 2009	31 December 2008	1 January 2008
Cash on hand	29	30	35
RR denominated bank balances	139,814	385,925	270,876
Foreign currency denominated bank balances	3,358	2,792	952
RR denominated bank deposits	200,000	40,000	—
Total cash and cash equivalents	**343,201**	**428,747**	**271,863**

At 31 December 2009, the closing balance of short-term bank deposits comprised of short-term bank deposits held in two banks with an interest rate ranging from 5.80% to 6.85% (31 December 2008: from 7.20% to 8.20%).

9 Cash and Cash Equivalents (Continued)

Restricted cash

Restricted cash of RR 146 (31 December 2008: RR 121; 1 January 2008: RR 0) represents minimum balances for settlement and corporate plastic cards accounts.

10 Inventories

Inventories comprise of the following:

	31 December 2009	31 December 2008	1 January 2008
Raw materials and supplies	26,550	25,393	30,275
Provision for obsolete inventories	(5,813)	(3,079)	(1,648)
Total inventories	**20,737**	**22,314**	**28,627**

The amount of inventories recognised in cost of sales for the year ended 31 December 2009 was RR 66,288 (2008: RR 70,548).

11 Trade and Other Receivables

Trade and other receivables comprise of the following:

	31 December 2009	31 December 2008	1 January 2008
Trade receivables	448,434	853,710	282,686
Less: provision for impairment of trade receivables	(9,828)	(1,191)	(1,718)
Interest free loans to employees	2,497	2,275	2,393
Other receivables	3,081	2,284	3,827
Less: provision for impairment of other receivables	(573)	(107)	(203)
Receivables due from customers for design and engineering work in progress (Note 15)	113,902	227,626	141,176
Financial assets within trade and other receivables, net	**557,513**	**1,084,597**	**428,161**
Advances to suppliers	20,683	30,964	130,905
Less: provision for impairment of advances to suppliers	(646)	(3,094)	(2,872)
VAT receivable	579	2,211	10,532
Other taxes receivable	1,879	3,495	4,575
Non-financial assets within other receivables, net	**22,495**	**33,576**	**143,140**
Total trade and other receivables	**580,008**	**1,118,173**	**571,301**

11 Trade and Other Receivables (Continued)

At 31 December 2009, trade receivables of RR 9,828 (31 December 2008: RR 1,191; 1 January 2008: RR 1,718) and other financial receivables of RR 573 (31 December 2008: RR 107; 1 January 2008: RR 203) were impaired and provided for in full.

	2009		2008	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Provision of financial assets for impairment at 1 January	**1,191**	**107**	**1,718**	**203**
Provision for/(Reversal of) receivables impairment	8,637	466	(527)	(96)
Provision of financial assets for impairment at 31 December	**9,828**	**573**	**1,191**	**107**

Provision of non-financial assets within other receivables is presented below:

	2009	2008
Provision of non-financial assets for impairment at 1 January	**3,094**	**2,872**
Provision for/(Reversal of) receivables impairment	(2,448)	222
Provision of non-financial assets for impairment at 31 December	**646**	**3,094**

The carrying amounts of financial assets within other long-term receivables, trade and other receivables and other financial assets are denominated in Russian Roubles.

12 Other Financial Assets

Other financial assets comprise of the following:

	31 December 2009	31 December 2008	1 January 2008
Promissory notes receivable	450,000	130,520	204,975
Interest from promissory notes receivable	7,518	3,236	5,104
Short-term loans advanced	200,000	20,000	20,000
Interest from short-term loans advanced	—	—	127
Bank deposits receivable	75,000	75,000	44,200
Less: provision for impairment of bank deposits	(25,000)	(25,000)	—
Interest from bank deposits	3,118	2,530	688
Less: provision of interest from bank deposits	(869)	(869)	—
Total other financial assets	**709,767**	**205,417**	**275,094**

Provision of other financial assets is presented below:

	2009	2008
Provision of other financial assets for impairment at 1 January	**25,869**	**—**
Provision for impairment of other financial assets	—	25,869
Provision of other financial assets for impairment at 31 December	**25,869**	**25,869**

Promissory notes receivable. At 31 December 2009, all promissory notes receivable comprise RR-denominated notes of OJSC “Bank of Khanty-Mansiysk” with a 12.25% interest rate (31 December 2008: promissory notes receivable of OJSC “Bank of Khanty-Mansiysk” amounted to RR 115,000 with an 8.0-9.5% interest rate and of OJSC “Sibneftebank” amounted to RR 15,520 with a 3.47% interest rate; 1 January 2008: promissory notes receivable of OJSC “Bank of Khanty-Mansiysk” amounted to

12 Other Financial Assets (Continued)

RR 120,000 with a 7.0% interest rate and of OJSC Sibneftebank amounted to RR 84,975 with a 6.0% interest rate).

Bank deposits. At 31 December 2009, bank deposits receivable comprise of OJSC "Gazprombank" deposits of RR 50,000 with an 11.8-12.5% interest rate and OJSC "Tumenenergobank" deposits of RR 25,000 (2008: OJSC "Sberbank"—RR 50,000 with interest rate of 8.7% and OJSC "Tumenenergobank"—RR 25,000 with interest rate of 12.7%; 1 January 2008: Commercial Bank "Agropromkredit"—RR 44,200 with interest rate of 8.7%).

In the end of 2008, Central bank of the Russian Federation revoked a license from OJSC "Tumenenergobank". Due to this fact, at 31 December 2008, the Company accrued a provision for impairment of bank deposit placed in OJSC "Tumenenergobank" in amount of RR 25,000. At 31 December 2009, the provision for this deposit remained unchanged.

Loans advanced. On 28 November 2007, the Company provided a RR-denominated loan to CJSC "GTNG-Engineering", a related party of the Company (Note 27), in amount of RR 20,000 at interest rate of 7.5% with a maturity date of 31 May 2008. The repayment date was regularly re-negotiated and finally extended to 1 June 2010.

On 2 March 2009, the Company provided a RR-denominated loan to CJSC "GTNG-Engineering" in amount of RR 100,000 at interest rate of 7.5% with a maturity date of 31 December 2010.

On 1 July 2009, the Company provided a RR-denominated loan to CJSC "GTNG-Engineering" in amount of RR 80,000 at interest rate of 7.5% with a maturity date of 31 December 2010.

13 Other Long-term Receivables

Other long-term receivables comprise of the following:

	31 December 2009	31 December 2008	1 January 2008
Long-term loans advanced	1,059	1,210	2,531
Long-term investments	24	25	95
Total other long-term receivables	**1,083**	**1,235**	**2,626**

14 Retirement Benefit Obligations

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

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

The following assumptions were used for the actuarial assessment at 31 December 2009 and 2008 and 1 January 2008:

	31 December 2009	31 December 2008	1 January 2008
Discount rate	9.0%	9.0%	6.8%
Inflation	6.5%	7.0%	6.0%
Expected annual increase in salaries	7.5%	n/a	n/a
Mortality	USSR,1985-1986	USSR,1985-1986	USSR,1985-1986

14 Retirement Benefit Obligations (Continued)

The following amounts were recognised in the profit or loss:

	2009	2008
Current service cost	1,100	1,035
Interest cost	2,937	1,994
Past service cost	35,684	—
Net actuarial (gains)/losses recognised during the year	(2,293)	2,592
Defined benefit scheme expenses	**37,428**	**5,621**

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

	31 December 2009	31 December 2008	1 January 2008
Present value of defined benefit obligations	109,493	32,917	29,281
Unrecognised past service cost	(41,919)	—	—
Liability in the statement of financial position, classified as:	**67,574**	**32,917**	**29,281**
Current pension liability	18,779	1,889	1,467
Non-current pension liability	48,795	31,028	27,814

Changes in the present value of the Company's pension liability are as follows:

	2009	2008
Present value of defined benefit obligations at the beginning of the year	**32,917**	**29,281**
Current service cost	1,100	1,035
Interest expense	2,937	1,994
Actuarial (gains)/losses	(2,293)	2,592
Benefits paid	(2,771)	(1,985)
Past service cost	77,603	—
Present value of defined benefit obligations as at the end of year	**109,493**	**32,917**

The contributions under voluntary pension programs in 2010 are expected to be close to RR 3,131.

	2009	2008
Defined benefit obligation	109,493	32,917
Plan assets	—	—
Deficit/(surplus)	109,493	32,917
Experience adjustments on plan liabilities	339	7,856
Experience adjustments on plan assets	—	—

15 Design and Engineering Contracts

During 2009 and 2008, the revenue from design and engineering contracts was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

15 Design and Engineering Contracts (Continued)

The following figures are related to the Company's activities under design and engineering contracts:

	2009	2008
Revenue from design and engineering contracts	1,908,175	2,773,627
Contract cost expensed	(1,653,929)	(2,100,677)
Gross margin	**254,246**	**672,950**

	31 December 2009	31 December 2008	1 January 2008
Advances received for design and engineering contracts	11,734	87,653	67,731
Retentions	16,623	30,573	24,325

The Company's financial position with respect to design and engineering contracts in progress is as follows:

	31 December 2009	31 December 2008	1 January 2008
Aggregate amount of contract cost incurred	750,202	984,523	932,701
Aggregate amount of recognised profits	114,687	294,324	158,992
Aggregate amount of recognised losses	(131)	(702)	(4,593)
Less: Progress billings	(750,856)	(1,050,519)	(945,924)
Gross amount due from customers for contract work	**113,902**	**227,626**	**141,176**

	31 December 2009	31 December 2008	1 January 2008
Aggregate amount of contract cost incurred	1,564,357	2,040,768	1,105,024
Aggregate amount of recognised profits	254,613	466,252	384,806
Aggregate amount of recognised losses	(505)	(39,550)	(19,172)
Less: Progress billings	(2,199,700)	(2,709,031)	(1,660,587)
Gross amount due to customers for contract work	**(381,235)**	**(241,561)**	**(189,929)**

Amounts due to and due from customers are disclosed in Notes 11 and 19.

16 Other Long-term Payables

Other long-term payables comprise of the following:

	31 December 2009	31 December 2008	1 January 2008
Long-term trade payables	—	2,203	—
Long-term advances from customers	—	4,643	32,209
Total other long-term payables	**—**	**6,846**	**32,209**

17 Provisions for Liabilities and Charges

Provisions for liabilities and charges comprise of the following:

	Unused vacation allowance
At 1 January 2008	**36,956**
Accrued	2,352
Reversal of provision	—
At 31 December 2008	**39,308**
Accrued	—
Reversal of provision	(6,051)
At 31 December 2009	**33,257**

18 Other Taxes Payable

Other taxes payable comprise of the following:

	31 December 2009	31 December 2008	1 January 2008
Value added tax	94,909	127,388	31,830
Unified social tax	5,859	6,856	7,255
Personal income tax	3,916	10,933	14,298
Property tax	886	668	736
Land tax	407	354	345
Transport tax	122	64	76
Other taxes	20	435	472
Total other taxes payable	**106,119**	**146,698**	**55,012**

19 Trade and Other Payables

Trade and other payables comprise of the following:

	31 December 2009	31 December 2008	1 January 2008
Trade payables	76,288	213,013	44,075
Other payables	15,663	13,580	14,095
Financial liabilities within trade and other payables	**91,951**	**226,593**	**58,170**
Advances from customers	1,957	8,486	17,037
Payables due to customers for design and engineering work in progress (Note 15)	381,235	241,561	189,929
Wages and salaries payable	52,525	101,144	109,746
Non-financial liabilities within trade and other payables	**435,717**	**351,191**	**316,712**
Total trade and other payables	**527,668**	**577,784**	**374,882**

The carrying amounts of financial liabilities within trade and other payables are denominated in Russian Roubles.

20 Share Capital and Earnings per Share

Authorised issued and paid share capital of the Company includes:

	31 December 2009		31 December 2008		1 January 2008	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Ordinary shares	37,582	1,055	37,582	1,055	37,582	1,055
Preference shares	12,527	352	12,527	352	12,527	352
Total number of shares	**50,109**	**1,407**	**50,109**	**1,407**	**50,109**	**1,407**

The Company's shares are denominated in Russian Roubles which is the functional currency of the Company. At 31 December 2007, all shares of the Company were authorised, issued and fully paid for cash. There was no additional issue of shares from this date. The total authorised number of shares is 50,109 which consist of 37,582 ordinary shares and 12,527 preference shares. Par value of both ordinary and preference shares is 1 Russian Rouble per share. Included in the share capital is the adjustment for the effect of hyperinflation of RR 1,357.

The holders of shares are entitled to receive dividends as declared from time to time. Holders of ordinary shares are entitled to one vote per share at shareholders meetings of the Company.

The preference shares are not redeemable. Holders of preference shares have right to receive at least 25% of the liquidation value of the Company in case of its liquidation and have priority as compared with holders of ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed.

Preference share dividends are set at 10% p.a. of the par value and rank above ordinary dividends. If preference dividends are not declared by the Company, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid. For the purposes of calculation of earnings per share preference shares are considered participating due to the following reason: if dividend declared per ordinary share exceeds dividend declared per preference share, dividend per preference share is increased to the amount of dividend per ordinary share.

During 2009, dividends were declared to the holders of both preference and ordinary shares and amounted to RR 79,373 (2008: RR 87,290). In 2009, dividends were paid in amount of RR 77,590 (2008: RR 82,434).

Earnings per share

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary and preference shares in issue during the year.

20 Share Capital and Earnings per Share (Continued)

Earnings per share from continuing operations are calculated as follows:

	2009	2008
Profit for the year attributable to ordinary shareholders	87,997	317,836
Profit for the year attributable to preference shareholders	29,331	105,943
Profit for the year	117,328	423,779
Weighted average number of ordinary shares in issue	37,582	37,582
Weighted average number of preference shares in issue	12,527	12,527
Basic and diluted earnings per ordinary share (expressed in RR per share)	2,341	8,457
Basic and diluted earnings per preference share (expressed in RR per share)	2,341	8,457

Dividends per share are calculated as follows:

	2009	2008
Dividends declared to holders of ordinary shares	59,530	65,468
Dividends declared to holders of preference shares	19,843	21,822
Weighted average number of ordinary shares in issue	37,582	37,582
Weighted average number of preference shares in issue	12,527	12,527
Dividends per ordinary share (expressed in RR per share)	1,584	1,742
Dividends per preference share (expressed in RR per share)	1,584	1,742

21 Income Taxes

Income tax expense for the years ended 31 December 2009 and 2008 included:

	2009	2008
Current tax	119,027	142,031
Deferred tax	(55,408)	(8,246)
Effect of the change in the tax rate	—	(45,261)
Total income tax expense	**63,619**	**88,524**

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

	2009	2008
Profit before income tax	**180,947**	**512,303**
Estimated tax charge at statutory rate of 20% (2008: 24%)	36,189	122,953
Non-deductible pension costs	6,931	727
Non-deductible depreciation	264	358
Non-deductible social expenditures	10,109	4,255
Other non-deductible expenses	10,126	5,492
Effect of the change in the tax rate	—	(45,261)
Total income tax expense	**63,619**	**88,524**

21 Income Taxes (Continued)

Differences between IFRS and local tax legislation give rise to temporary differences between the carrying value of assets and liabilities for financial reporting purposes and for tax purposes. The tax effect of these temporary differences is recorded at the income tax rate enacted or substantially enacted at the statement of financial position date. With effect from 1 January 2009, the rate of income tax payable by companies in the Russian Federation changed from 24% to 20%, consequently, deferred tax assets/liabilities are measured at the rate of 20% at 31 December 2009 and 2008 and 24% at 1 January 2008.

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

	31 December 2009	31 December 2008	1 January 2008
Deferred tax assets to be recovered within 12 months	100,427	72,074	70,841
Deferred tax assets to be recovered after more than 12 months	48	102	151
Total deferred tax assets	**100,475**	**72,176**	**70,992**
Deferred tax liabilities to be settled within 12 months	(22,756)	(41,185)	(32,236)
Deferred tax liabilities to be settled after more than 12 months	(248,617)	(257,297)	(318,569)
Total deferred tax liabilities	**(271,373)**	**(298,482)**	**(350,805)**
Total deferred tax liabilities, net	**(170,898)**	**(226,306)**	**(279,813)**

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

	1 January 2009	Credited/(charged) to profit or loss	31 December 2009
Deferred tax liabilities			
Property, plant and equipment	(255,148)	7,836	(247,312)
Intangible assets	(2,149)	844	(1,305)
Short-term trade receivables	(41,185)	18,429	(22,756)
Total deferred tax liabilities	**(298,482)**	**27,109**	**(271,373)**
Deferred tax assets			
Inventory	16,080	1,632	17,712
Short-term trade receivables	—	4,149	4,149
Long-term trade receivables	102	(54)	48
Trade and other payables	48,132	23,783	71,915
Short-term provisions	7,862	(1,211)	6,651
Total deferred tax assets	**72,176**	**28,299**	**100,475**
Total deferred tax liabilities, net	**(226,306)**	**55,408**	**(170,898)**

21 Income Taxes (Continued)

	1 January 2008	Credited/(charged) to profit or loss	Change in income tax rate recognised in profit or loss	31 December 2008
Deferred tax liabilities				
Property, plant and equipment	(314,735)	8,559	51,028	(255,148)
Intangible assets	(3,834)	1,255	430	(2,149)
Short-term trade receivables	(32,218)	(17,204)	8,237	(41,185)
Other taxes payable	(18)	18	—	—
Total deferred tax liabilities	**(350,805)**	**(7,372)**	**59,695**	**(298,482)**
Deferred tax assets				
Inventory	16,430	2,866	(3,216)	16,080
Long-term trade receivables	151	(29)	(20)	102
Trade and other payables	45,542	12,216	(9,626)	48,132
Short-term provisions	8,869	565	(1,572)	7,862
Total deferred tax asset	**70,992**	**15,618**	**(14,434)**	**72,176**
Total deferred tax liabilities, net	**(279,813)**	**8,246**	**45,261**	**(226,306)**

22 Revenue

	2009	2008
Revenue from design and engineering contracts	1,908,175	2,773,627
Revenue from rent	88,966	99,877
Sales of other services and goods	71	1,604
Total revenue	**1,997,212**	**2,875,108**

23 Cost of Sales

	2009	2008
Labour costs	890,554	985,347
Design and engineering services of subcontractors	510,505	769,667
Raw materials and supplies	66,288	70,548
Depreciation and amortisation	65,991	74,621
Services from third parties	62,331	62,335
Defined benefits scheme expenses	32,610	4,857
Property, plant and equipment repair and maintenance	29,237	35,154
Utilities	11,105	9,386
Transportation	10,231	13,872
Provision for obsolete inventories	2,734	1,431
(Reversal)/ Recognition of loss under IAS 11	(39,615)	16,487
Other expenses	32,166	76,184
Total cost of sales	**1,674,137**	**2,119,889**

24 Distribution and Transportation Expenses

	2009	2008
Advertising	1,893	254
Entertaining costs and business trip expenses	747	453
Total distribution and transportation expenses	**2,640**	**707**

25 General and Administrative Expenses

	2009	2008
Labour costs	130,691	158,457
Depreciation and amortisation	28,912	26,125
Insurance	8,751	8,016
Taxes and duties	6,750	6,316
Provision for impairment of accounts receivable	6,655	25,468
Bank services	4,850	4,718
Defined benefits scheme expenses	4,818	764
Entertaining costs and business trip expenses	1,442	1,821
Audit and consultancy services	982	353
Provisions for legal claims and uncertain tax position	909	33
Stationary and office maintenance	862	697
Security	307	154
Training and recruitment	220	344
Other expenses	3,957	2,066
Total general and administrative expenses	**200,106**	**235,332**

26 Other Operating Expenses, Net

	2009	2008
Charity, social expenditures	10,527	11,108
Loss on sales and other disposal of property, plant and equipment and intangible assets	5,592	9,158
Depreciation of social assets	260	640
Fines and late payment interest under contracts	28	2,877
Foreign exchange gain, net	(55)	(449)
Gain on sales of inventories	(19)	(34)
Dividend income	(1)	(7)
Other expenses	2,336	9,482
Total other operating expenses, net	**18,668**	**32,775**

27 Balances and Transactions with Related Parties

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

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

27 Balances and Transactions with Related Parties (Continued)

At 31 December 2009, CJSC GTNG-Engineering held 17.07% of ordinary shares of the Company (31 December 2008: 17.07%; 1 January 2008: 16.45%). One of CJSC GTNG-Engineering's shareholders acted as a General Director, member of the Board of Directors and the Management Board of the Company. In addition, a number of individuals acting as members of the Management Board and the Board of Directors of the Company held non-controlling interests in the Company, both directly and indirectly through holding in CJSC GTNG-Engineering. On this basis, for the purposes of these financial statements CJSC GTNG-Engineering is considered to be a related party.

The Company's related party balances and transactions are disclosed below:

Balances with CJSC GTNG-Engineering	31 December 2009	31 December 2008	1 January 2008
Trade and other receivables	1,678	18,735	99,846
Trade receivables	*1,534*	—	*4,529*
Other receivables	*144*	*18,735*	*95,317*
Short-term loans advanced, 7.5% p.a. (Note 12)	200,000	20,000	20,000
Interest on short-term loans advanced	—	—	127
Trade and other payables	46,371	136,428	10,488
Trade payables	*45,809*	*136,428*	*10,488*
Other payables	*562*	—	—

No provision was made for accounts receivable from related parties.

Neither party issued guarantees to secure accounts receivable or payable.

Transactions with CJSC GTNG-Engineering	2009	2008
Sales of services	6,962	1,837
Purchase of services	(315,220)	(574,648)
Interest income	11,252	1,627

In 2009, dividends of RR 49,018 were accrued and paid to shareholders of the Company, who are related parties of the Company (2008: RR 36,575).

Key management compensation

Key management compensation amounted to RR 48,018 for the year ended 31 December 2009 (2008: RR 57,356) and includes short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually. Company's defined benefit scheme expenses related to key management and recognised in the profit or loss in 2009 totaled to RR 8,081 (2008: RR 29).

28 Contingencies and Commitments

(a) Legal proceeding

During the years ended 31 December 2009 and 2008, the Company was not involved in any court proceedings (both as a plaintiff or a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been recorded or disclosed in these financial statements.

28 Contingencies and Commitments (Continued)

(b) Tax legislation

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

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

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

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

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

(c) Environmental matters

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

(d) Insurance policies

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

28 Contingencies and Commitments (Continued)

(e) Contractual commitments

At 31 December 2009, the Company had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 8,066 (31 December 2008: RR 7,844; 1 January 2008: 5,453).

(f) Non-cancellable operating lease

At 31 December 2009, the Company leased 3 land plots used as location for production and administration buildings owned by the Company (31 December 2008: 6 land plots; 1 January 2008: 7 land plots). Fixed rent payments are defined in the lease contracts and denominated in Russian Roubles. For these land plots future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2009	31 December 2008	1 January 2008
Not later than one year	1,339	1,667	1,503
Later than one year and not later than five years	5,354	5,354	5,683
Later than five years	1,409	2,748	4,086
Total	**8,102**	**9,769**	**11,272**

29 Segment Information

Management has determined a single operating segment—design and engineering services—based on the management reports which are primarily derived from RAP financial statements. The management reports are reviewed by the chief operating decision-maker and used to make strategic decisions. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director of the Company. The CODM evaluates performance based on operating profit. For management reporting purposes all costs and expenses are allocated to design and engineering services segment.

Segment information for the year ended 31 December 2009 and 2008 is as follows:

	2009	2008
Revenue	**2,292,391**	**2,823,803**
Depreciation and amortisation	**(52,193)**	**(54,097)**
Operating profit	**415,753**	**509,256**

Reconciliation of financial information analysed by CODM to corresponding information presented in financial statements prepared under IFRS is provided below.

Reconciliation of revenue

	2009	2008
Revenue, RAP	**2,292,391**	**2,823,803**
Design and engineering contracts percentage of completion adjustment	(295,179)	51,305
Revenue, IFRS	**1,997,212**	**2,875,108**

29 Segment Information (Continued)

Reconciliation of depreciation and amortisation expense

	2009	2008
Depreciation and amortisation, RAP	**52,193**	**54,097**
Effect of revaluation of PP&E performed as of 1 January 2008 (deemed cost) and reclassification of intangible assets amortisation from third party services expense to amortisation expense (within cost of sales)	42,970	(47,289)
Depreciation and amortisation, IFRS	**95,163**	**101,386**

Reconciliation of operating profit

	2009	2008
Operating profit, RAP	**415,753**	**509,256**
Design and engineering contracts percentage of completion adjustment	(265,082)	20,153
Provision for pension liability under IAS 19 (Note 14)	(37,428)	(5,621)
Depreciation and amortisation	(35,587)	(31,833)
Provision for impairment of accounts receivable (Note 25)	(6,655)	(25,468)
Reversal of RAP provision for doubtful debts	23,913	19,964
Provision for unused vacation (Note 17)	6,051	(2,352)
Other adjustments	696	2,306
Operating profit, IFRS	**101,661**	**486,405**

Revenue for the years ended 31 December 2009 and 2008 by geographical areas was as follows:

	2009	2008
Revenue by geographical areas	**1,997,212**	**2,875,108**
Design and engineering services—domestic	1,903,434	2,770,630
Design and engineering services—export	4,741	2,997
Rent income and other revenue—domestic	89,037	101,481

Revenue by customer for years ended 31 December 2009 and 2008 was as follows:

	2009		2008	
Revenue by major customers	Amount of revenue	Structure	Amount of revenue	Structure
Revenues by customer—all geographical areas	**1,997,212**	**100%**	**2,875,108**	**100%**
Gazpromneft-Noyabrskneftegaz	636,136	32%	764,094	27%
RN-Yuganskneftegaz	503,781	25%	630,577	22%
Gazpromneft-Khantos	342,511	17%	382,953	13%
TNK-Nyagan	40,768	2%	301,968	11%
Other (each <10% of total revenue)	474,016	24%	795,516	28%

Information on EBITDA is not required by IFRS but the Company decided to disclose it as it is used by the shareholders. EBITDA is derived from the financial statements prepared in accordance with IFRS. For this purpose EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation

29 Segment Information (Continued)

and amortisation, inventory impairment provision, provision for impairment of accounts receivable, provision for impairment of other financial assets, unused vacation provision.

	2009	2008
EBITDA, management report	**482,641**	**584,651**
Design and engineering contracts percentage of completion adjustment	(255,564)	34,818
Other adjustments	29,329	35,329
EBITDA, adjusted	**256,406**	**654,799**
Depreciation and amortisation	(95,163)	(101,386)
Non-monetary items*	(41,173)	(34,873)
Other income and expense	(18,409)	(32,135)
Operating profit	**101,661**	**486,405**
Finance income	79,286	25,898
Profit before income tax, IFRS	**180,947**	**512,303**

* Non-monetary items consists of provisions: inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, etc.

30 Financial Risk Management

The Company's financial instruments comprise accounts receivable and payable, loans receivable and cash and cash equivalents, which arise directly from its operations. During 2009 and 2008, the Company did not undertake trading of financial instruments.

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and price risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by the Company's finance department. The Company's finance department identifies and evaluates financial risks in close co-operation with the Company's operating units.

(a) Market risk

(i) Foreign currency risk

The Company does not have significant foreign operations and does not have significant balances in foreign currencies, therefore management believes that the Company is not exposed to foreign currency risk.

(ii) Price risk

The Company is not exposed to equity securities price risk because it does not hold any quoted equity securities. The Company is not exposed to commodity price risk because both its services and purchased raw materials and services are not traded on a public market.

(b) Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties

30 Financial Risk Management (Continued)

giving rise to financial assets which consist principally of trade and other receivables, cash and cash equivalents and other financial assets. The maximum exposure to credit risk of the financial assets is limited to their carrying amounts.

	31 December 2009	31 December 2008	1 January 2008
Trade receivables (Note 11)	438,606	852,519	280,968
Other receivables—financial assets (Note 11)	118,907	232,078	147,193
Other financial assets (Note 12)	709,767	205,417	275,094
Long-term loans advanced (Note 13)	1,059	1,210	2,531
Cash and cash equivalents, including restricted cash (Note 9)	343,347	428,868	271,863
Total on-balance sheet exposure	**1,611,686**	**1,720,092**	**977,649**
Total maximum exposure to credit risk	**1,611,686**	**1,720,092**	**977,649**

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

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

Bank	Agency	Rating	31 December 2009	31 December 2008	1 January 2008
OJSC Sberbank	Moody's*	D+	259,207	292,583	189,861
OJSC Bank of Khanty-Mansiysk	S&P's**	B+	77,754	95,884	67,365
OJSC Gazprombank	Moody's*	E+	2,904	22,638	672
OJSC Alfa-Bank	S&P's**	B+	—	—	1,111
Commercial Bank Agropromkredit	Moody's*	E+	92	14,934	9,520
OJSC Sibneftebank	—	—	3,361	2,799	3,299
Cash on hand	—	—	29	30	35
Total cash and cash equivalents			**343,347**	**428,868**	**271,863**

* International rating agency Moody's Investor Service

** International rating agency Standard & Poor's

Trade and other financial receivables. The Company assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Company provides it with the terms of rendering of services and payments. The Company commercial department reviews ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Company's significant customers is monitored on an ongoing basis. The majority of the Company's customers are large oil and gas companies.

30 Financial Risk Management (Continued)

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

	31 December 2009		31 December 2008		1 January 2008	
	Trade receivables	Other receivables and other financial assets	Trade receivables	Other receivables and other financial assets	Trade receivables	Other receivables and other financial assets
Total not overdue and not impaired, including:	**363,741**	**803,039**	**723,602**	**438,626**	**243,802**	**424,816**
Large enterprises	270,937	316,399	651,829	249,902	219,836	163,378
Middle and small size companies	92,804	446	71,773	6	23,941	—
Government organisation and agencies	—	28	—	—	—	—
Scientific research institutes	—	31	—	—	24	—
Individuals	—	15	—	—	1	—
Banks*	—	482,518	—	183,757	—	254,366
Other	—	3,602	—	4,961	—	7,072
Total past due but not impaired, including:	**74,865**	**26,694**	**128,917**	**79**	**37,166**	**2**
—less than 60 days overdue	8,662	28	50	62	23,333	2
—61 to 180 days overdue	632	—	1	—	5,526	—
—181 to 365 days overdue	21,348	166	91,348	17	8,274	—
—over 360 days overdue	44,223	26,500	37,518	—	33	—
Individually impaired (gross), including:	**9,828**	**26,442**	**1,191**	**25,976**	**1,718**	**203**
Current to be impaired						
—less than 60 days overdue	1,673	—	23	—	3	—
—61 to 180 days overdue	872	532	—	107	33	—
—181 to 365 days overdue	5,781	3	581	—	248	—
—over 360 days overdue	1,502	25,907	587	25,869	1,434	203
Less impairment provision	**(9,828)**	**(26,442)**	**(1,191)**	**(25,976)**	**(1,718)**	**(203)**
Total	**438,606**	**829,733**	**852,519**	**438,705**	**280,968**	**424,818**

* These amounts include bank promissory notes and sort-term deposits (Note 12), analysis of credit ratings of banks is provided above.

In accordance with the Company's accounting policy for accounts receivable balances, provisions for impairment are considered for those balances which are outstanding 60 days after the debt is incurred. The overdue receivables are regularly assessed for impairment and the Company sets up provisions for individually impaired receivables, while the other are classified as past due but not impaired.

Credit risks concentration of trade receivables

Date	Number of counterparties with aggregated trade receivable balances above RR 50,000	Total aggregate amount of these balances	% of the gross amount of trade receivables
At 31 December 2009	4	376,630	84%
At 31 December 2008	5	696,635	82%
At 1 January 2008	2	183,569	65%

30 Financial Risk Management (Continued)

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

Analysis by credit quality of short-term (>3m , <12m) deposits placed in banks is as follows:

Agency	Rating	31 December 2009	31 December 2008	1 January 2008
Moody's	D+	—	50,000	—
Moody's	E+	—	—	44,200
S&P's	BB	50,000	—	—
Total		**50,000**	**50,000**	**44,200**

At 31 December 2009, the Company's bank deposits are held only with 3 banks (31 December 2008: 3 banks; 1 January 2008: 1 bank) thus exposing the Company to a concentration of credit risk.

(c) Liquidity risk

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

The contractual repayment dates of the Company's current trade and other payables are within 1 year since the respective reporting date. At 31 December 2008, the contractual repayment dates of the Company's non-current trade payables are between 1 and 2 years.

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

The table below gives liquidty ratio information at the reporting date:

	31 December 2009	31 December 2008	1 January 2008
Liquidity ratio	2.34	2.14	2.27
Current assets	1,659,215	1,780,783	1,152,411
Current liabilities	707,720	831,382	507,790

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

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

31 Management of Capital

The Company's capital risk management has as key objectives compliance with the Russian legislation requirements and safeguarding the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The amount of capital equals total equity per IFRS financial statements. The amount of capital that the Company managed at 31 December 2009 was RR 2,160,075 (31 December 2008: RR 2,122,120; 1 January 2008: 1,785,631).

32 Events after the Reporting Period

Loan advanced. After the reporting period the Company advanced a long-term loan to CJSC HYDROMASHSERVICE, a subsidiary of OJSC HMS Group, in the amount of RR 400,000 carrying interest at 7% p.a. This loan matures in March 2012.

Redemption of financial assets. After the reporting period all short-term bank promissory notes, short-term loans advanced and bank deposits were redeemed.

Dividends. In June 2010, at the annual shareholders' meeting a decision was taken to declare dividends for 2009 on ordinary and preference shares in the total amount of RR 50 (1 Russian Rouble per share).

Change in shareholding. After the reporting period, the Company's shareholding structure has changed. In June 2010, CJSC HYDROMASHSERVICE acquired 51% of ordinary shares in the Company.

Acquisition of an associate. After the reporting period, the Company acquired an additional share issue of OJSC Trest Sibkomplektmontazhnaladka ("OJSC Trest SKMN"), a subsidiary of OJSC HMS Group, for a cash consideration of RR 428,420. The Company's interest in OJSC Trest SKMN totalled 32.71%.

Giprotyumenneftegaz OJSC

Condensed Interim Financial Information (unaudited)

30 September 2010

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REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

To the Shareholders and the Board of Directors of Open Joint Stock Company Giprotyumenneftegaz:

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Open Joint Stock Company Giprotyumenneftegaz (the "Company") as of 30 September 2010 and the related condensed interim statement of comprehensive income, cash flows and changes in equity for the nine-month period then ended, and selected explanatory notes. Management is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

ZAO PricewaterhouseCoopers Audit

30 December 2010
Moscow, Russian Federation

Giprotyumenneftegaz OJSC

Condensed Interim Statement of Financial Position as of 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 September 2010	31 December 2009
ASSETS			
Non-current assets:			
Property, plant and equipment	7	1,392,052	1,420,631
Intangible assets	8	4,064	6,559
Investments in associate	9	428,420	—
Other long-term receivables	14	400,401	1,083
Total non-current assets		**2,224,937**	**1,428,273**
Current assets:			
Inventories	11	14,322	20,737
Trade and other receivables	12	760,941	580,008
Other financial assets	13	—	709,767
Current income tax receivable		7,291	5
Prepaid expenses		10,119	5,351
Cash and cash equivalents	10	162,644	343,201
Restricted cash	10	2,042	146
Total current assets		**957,359**	**1,659,215**
TOTAL ASSETS		**3,182,296**	**3,087,488**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1,407	1,407
Retained earnings		2,234,620	2,158,668
TOTAL EQUITY		**2,236,027**	**2,160,075**
LIABILITIES			
Non-current liabilities:			
Deferred income tax liability		192,834	170,898
Pension liability	15	99,224	48,795
Total non-current liabilities		**292,058**	**219,693**
Current liabilities:			
Trade and other payables	19	569,485	527,668
Provisions for liabilities and charges	17	22,511	33,257
Pension liability	15	4,772	18,779
Current income tax payable		60	21,897
Other taxes payable	18	57,383	106,119
Total current liabilities		**654,211**	**707,720**
TOTAL LIABILITIES		**946,269**	**927,413**
TOTAL EQUITY AND LIABILITIES		**3,182,296**	**3,087,488**

Approved for issue and signed on behalf of the Board of Directors on 30 December 2010.

N.N. Andreeva
Managing Director

B.V. Fraishteter
Deputy Managing Director on Economics and Planning

The accompanying notes on pages F-209 to F-227 are an integral part of this condensed interim financial information.

Giprotyumenneftegaz OJSC

Condensed Interim Statement of Comprehensive Income for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue	21	1,518,356	1,383,445
Cost of sales	22	(1,251,278)	(1,123,712)
Gross profit		**267,078**	**259,733**
Distribution and transportation expenses	23	(3,942)	(696)
General and administrative expenses	24	(163,968)	(133,414)
Other operating expenses, net	25	(17,766)	(9,829)
Operating profit		**81,402**	**115,794**
Finance income		38,622	56,565
Profit before income tax		**120,024**	**172,359**
Income tax expense	20	(44,022)	(60,600)
Profit for the period		**76,002**	**111,759**
Other comprehensive income		—	—
Total comprehensive income for the period		**76,002**	**111,759**
Basic and diluted earnings per ordinary share for profit attributable to ordinary shareholders (in RR per share)		1,517	2,230
Basic and diluted earnings per preference share for profit attributable to preference shareholders (in RR per share)		1,517	2,230

The accompanying notes on pages F-209 to F-227 are an integral part of this condensed interim financial information.

Giprotyumenneftegaz OJSC

Condensed Interim Statement of Cash Flows for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Cash flows from operating activities			
Profit before income tax		120,024	172,359
Adjustments for:			
Depreciation and amortisation	7, 8	66,128	71,358
Loss on sale and other disposal of property, plant and equipment and intangible assets	25	6,355	4,249
Finance income		(38,622)	(56,565)
Defined benefit scheme expenses	15	41,956	12,881
Provision for impairment of accounts receivable	24	(17)	5,051
Provision for obsolete inventories	22	(4,004)	2,472
Operating cash flows before working capital changes		**191,820**	**211,805**
Decrease/(Increase) in inventories		10,419	(13,425)
(Increase)/Decrease in trade and other receivables		(205,460)	411,960
Decrease in taxes payable		(41,451)	(68,608)
Increase/(Decrease) in accounts payable and accrued liabilities		36,491	(136,295)
Restricted cash		(1,896)	(1,212)
Cash (used in)/generated from operations		**(10,077)**	**404,225**
Income tax paid		(51,173)	(131,922)
Net cash (used in)/from operating activities		**(61,250)**	**272,303**
Cash flows from investing activities			
Payment for acquisition of associate	9	(428,420)	—
Loans advanced		(400,000)	(80,000)
Proceeds from loans advanced		200,000	—
Purchase of promissory notes		(1,650)	(250,059)
Proceeds from promissory notes		451,650	255,579
Increase in deposits		(100,005)	(525,000)
Proceeds from deposits		150,005	225,000
Interest received		48,389	35,865
Acquisition of intangible assets	8	(1,280)	(5,892)
Purchase of property, plant and equipment	7	(36,124)	(59,135)
Net cash used in investing activities		**(117,435)**	**(403,642)**
Cash flows from financing activities			
Dividends paid		(1,889)	(67,963)
Net cash used in financing activities		**(1,889)**	**(67,963)**
Net decrease in cash and cash equivalents		**(180,574)**	**(199,302)**
Effect of exchange rate changes on cash and cash equivalents		**17**	**79**
Cash and cash equivalents at the beginning of the period	10	**343,201**	**428,747**
Cash and cash equivalents at the end of the period	10	**162,644**	**229,524**

The accompanying notes on pages F-209 to F-227 are an integral part this condensed interim financial information.

Giprotyumenneftegaz OJSC

Condensed Interim Statement of Changes in Equity for the nine months ended 30 September 2010 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

	Share capital	Retained earnings	Total equity
Balance at 1 January 2009	**1,407**	**2,120,713**	**2,122,120**
Profit for the period	—	111,759	111,759
Other comprehensive income	—	—	—
Total comprehensive income for the period	—	111,759	111,759
Dividends declared	—	(79,373)	(79,373)
Balance at 30 September 2009	**1,407**	**2,153,099**	**2,154,506**
Balance at 1 January 2010	**1,407**	**2,158,668**	**2,160,075**
Profit for the period	—	76,002	76,002
Other comprehensive income	—	—	—
Total comprehensive income for the period	—	76,002	76,002
Dividends declared	—	(50)	(50)
Balance at 30 September 2010	**1,407**	**2,234,620**	**2,236,027**

The accompanying notes on pages F-209 to F-227 are an integral part of this condensed interim financial information.

1 The Company and its Operations

Open Joint Stock Company Giprotyumenneftegaz (the "Company") renders design and engineering services to the oil and gas industry. The Company is the leading design and engineering entity servicing the oil and gas companies located mainly in Tyumen Region. The Company was incorporated as an Open Joint Stock Company in May 1994. The Company's registered address is 62 Respubliki St., Tyumen, Russian Federation.

The Company's parent company is Open Joint Stock Company HMS Group which till September 2010 was jointly controlled by Hydroindustry LLC and Hydromashinvest LLC. In September 2010, as a result of corporate restructuring, H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED became the Company's ultimate parent and was that as of 30 September 2010. H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED is jointly controlled by two groups of shareholders—former shareholders of Hydroindustry LLC and former shareholders of Hydromashinvest LLC on the basis of restructuring agreement under which the shareholder's right in respect of the governance and control were contractually retained during the restructuring period. Refer also to Note 29.

2 Operating Environment of the Company

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.

(iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Debtors of the Company were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

Management is unable to predict all developments in the economic environment which could have an impact on the Company's operations and consequently what effect, if any, they could have on the future financial position of the Company.

3 Basis of Preparation

This condensed interim financial information for the nine months ended 30 September 2010 has been prepared in accordance with IAS 34, *Interim financial reporting*. The condensed interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2009 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

4 Accounting Policies and Estimates

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements, except as described in Note 5 and below.

Income tax and social security compensation in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings of the Company and employees, respectively.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. The following are estimates and judgments significantly changed from those of the annual financial statements for the year ended 31 December 2009:

(a) Assessment of impairment indicators for property, plant and equipment

At 30 September 2010, management of the Company assessed whether there was any indication of impairment of property, plant and equipment and concluded that such indication did not exist at that date.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The Company does not expect the amended standard to have any effect on its interim financial information.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Company concluded that the revised standard does not have any effect on its interim financial information.

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

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

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

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly

5 Adoption of New or Revised Standards and Interpretations (Continued)

provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The Company does not expect the amendments to have any material effect on its interim financial information.

6 New Accounting Pronouncements

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

Classification of Rights Issues—Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Company is currently assessing the impact of the amendment on its financial statements.

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

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

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

Limited exemption from comparative IFRS 7 disclosures for first-time adopters—Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to

6 New Accounting Pronouncements (Continued)

IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Company concluded that this amendment does not have any effect on its financial statements.

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

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

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

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

6 New Accounting Pronouncements (Continued)

include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company is currently assessing the impact of the improvements on its financial statements.

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

7 Property, Plant and Equipment

Movements in property, plant and equipment for the nine months ended 30 September 2010 and 2009 are as follows:

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Carrying amount at 1 January 2009	**47**	**1,226,763**	**71,856**	**11,716**	**84,291**	**30,204**	**1,424,877**
Additions	897	2,176	29,155	4,391	12,128	10,388	59,135
Transfers	—	—	14,474	—	—	(14,474)	—
Disposals	—	—	(2,052)	(48)	(2,524)	—	(4,624)
Depreciation for the period	—	(29,062)	(11,813)	(1,594)	(19,686)	—	(62,155)
Carrying amount at 30 September 2009	**944**	**1,199,877**	**101,620**	**14,465**	**74,209**	**26,118**	**1,417,233**
Cost at 30 September 2009	**944**	**1,267,557**	**127,990**	**17,837**	**116,033**	**26,118**	**1,556,479**
Accumulated depreciation	**—**	**(67,680)**	**(26,370)**	**(3,372)**	**(41,824)**	**—**	**(139,246)**
Carrying amount at 1 January 2010	**8,309**	**1,195,404**	**101,040**	**15,638**	**78,134**	**22,106**	**1,420,631**
Additions	—	2,886	14,055	—	17,133	2,050	36,124
Transfers	68	—	—	—	—	(68)	—
Disposals	—	—	(1,053)	—	(1,261)	—	(2,314)
Depreciation for the period	—	(29,188)	(11,688)	(1,989)	(19,524)	—	(62,389)
Carrying amount at 30 September 2010	**8,377**	**1,169,102**	**102,354**	**13,649**	**74,482**	**24,088**	**1,392,052**
Cost at 30 September 2010	**8,377**	**1,275,737**	**141,186**	**19,670**	**138,277**	**24,088**	**1,607,335**
Accumulated depreciation	**—**	**(106,635)**	**(38,832)**	**(6,021)**	**(63,795)**	**—**	**(215,283)**

Construction-in-progress includes advances for capital expenditures for a total of RR 15,537 at 30 September 2010 (31 December 2009: RR 13,949).

8 Intangible Assets

Intangible assets and related accumulated amortisation consist of the following:

	Patents	Licensed technology	Acquired software license	Trade-marks	Total
Carrying amount at 1 January 2009	**14**	**4**	**10,742**	**27**	**10,787**
Additions	—	8	5,884	—	**5,892**
Disposals	—	—	(650)	—	**(650)**
Amortisation for the period	(1)	(2)	(9,196)	(4)	**(9,203)**
Carrying amount at 30 September 2009	**13**	**10**	**6,780**	**23**	**6,826**
Cost at 30 September 2009	**15**	**13**	**14,856**	**31**	**14,915**
Accumulated amortisation	**(2)**	**(3)**	**(8,076)**	**(8)**	**(8,089)**
Carrying amount at 1 January 2010	**13**	**9**	**6,515**	**22**	**6,559**
Additions	—	80	1,200	—	**1,280**
Disposals	—	—	(36)	—	**(36)**
Amortisation for the period	(1)	(13)	(3,722)	(3)	**(3,739)**
Carrying amount at 30 September 2010	**12**	**76**	**3,957**	**19**	**4,064**
Cost at 30 September 2010	**15**	**93**	**8,172**	**31**	**8,311**
Accumulated amortisation	**(3)**	**(17)**	**(4,215)**	**(12)**	**(4,247)**

9 Investments in Associate

On 25 May 2010, the Company entered into the share purchase agreement with OJSC Trest Sibkomplektmontazhnaladka (“SKMN”), a subsidiary of OJSC HMS Group (Note 26), to acquire an additional share issue of SKMN for a cash consideration of RR 428,420. The Company obtained power to significantly influence SKMN in July 2010. After this share issue, the Company’s interest in SKMN totaled 32.71%.

10 Cash and Cash Equivalents

Cash and cash equivalents comprise of the following:

	30 September 2010	31 December 2009
Cash on hand	33	29
RR denominated bank balances	159,262	139,814
Foreign currency denominated bank balances	3,349	3,358
RR denominated bank deposits	—	200,000
Total cash and cash equivalents	**162,644**	**343,201**

Restricted cash

Restricted cash of RR 2,042 (31 December 2009: RR 146) represents minimum balances for settlement and corporate plastic cards accounts.

11 Inventories

Inventories comprise of the following:

	30 September 2010	31 December 2009
Raw materials and supplies	16,131	26,550
Provision for obsolete inventories	(1,809)	(5,813)
Total inventories	**14,322**	**20,737**

The amount of inventories recognised in cost of sales for the nine months ended 30 September 2010 was RR 49,545 (nine months ended 30 September 2009: RR 40,102).

12 Trade and Other Receivables

Trade and other receivables comprise of the following:

	30 September 2010	31 December 2009
Trade receivables	281,270	448,434
Less: provision for impairment of trade receivables	(9,958)	(9,828)
Interest free loans to employees	1,412	2,497
Other receivables	4,580	3,081
Less: provision for impairment of other receivables	(835)	(573)
Receivables due from customers for design and engineering work in progress (Note 16)	421,607	113,902
Financial assets within trade and other receivables, net	**698,076**	**557,513**
Advances to suppliers	56,274	20,683
Less: provision for impairment of advances to suppliers	(237)	(646)
VAT receivable	3,633	579
Other taxes receivable	3,195	1,879
Non-financial assets within other receivables, net	**62,865**	**22,495**
Total trade and other receivables	**760,941**	**580,008**

At 30 September 2010, trade receivables of RR 9,958 (31 December 2009: RR 9,828) and other financial receivables of RR 835 (31 December 2009: 573) were impaired and provided for in full.

The carrying amounts of financial assets within other long-term receivables, trade and other receivables and other financial assets are denominated in Russian Roubles.

13 Other Financial Assets

Other financial assets comprise of the following:

	30 September 2010	31 December 2009
Promissory notes receivable	—	450,000
Interest from promissory notes receivable	—	7,518
Short-term loans advanced	—	200,000
Bank deposits receivable	25,000	75,000
Less: provision for impairment of bank deposits	(25,000)	(25,000)
Interest from bank deposits	869	3,118
Less: provision of interest from bank deposits	(869)	(869)
Total other financial assets	**—**	**709,767**

13 Other Financial Assets (Continued)

Promissory notes receivable. At 31 December 2009, all promissory notes receivable comprised RR-denominated notes of OJSC Bank of Khanty-Mansiysk with a 12.25% interest rate. By 30 September 2010, all promissory notes were redeemed.

Bank deposits. At 30 September 2010, bank deposits receivable comprise of OJSC Tumenenergobank deposits of RR 25,000 (31 December 2009: OJSC Gazprombank deposits of RR 50,000 with an 11.8-12.5% interest rate and OJSC Tumenenergobank deposits of RR 25,000).

In the end of 2008, Central bank of the Russian Federation revoked a license from OJSC Tumenenergobank. Due to this fact, at 31 December 2008 the Company accrued a provision for impairment of bank deposit placed in OJSC Tumenenergobank in amount of RR 25,000. At 31 December 2009 and 30 September 2010, the provision for this deposit remained unchanged.

Loans advanced. On 28 November 2007, the Company provided a RR-denominated loan to CJSC GTNG-Engineering, a related party of the Company (Note 26), in amount of RR 20,000 at interest rate of 7.5% with a maturity date of 31 May 2008. The repayment date was re-negotiated several times and finally extended to 1 June 2010.

On 2 March 2009, the Company provided a RR-denominated loan to CJSC GTNG-Engineering in amount of RR 100,000 at interest rate of 7.5% with a maturity date of 31 December 2010.

On 1 July 2009, the Company provided a RR-denominated loan to CJSC GTNG-Engineering in amount of RR 80,000 at interest rate of 7.5% with a maturity date of 31 December 2010.

By 30 September 2010, all loans advanced to CJSC GTNG-Engineering were redeemed.

14 Other Long-term Receivables

Other long-term receivables comprise of the following:

	30 September 2010	31 December 2009
Long-term loans advanced	400,377	1,059
Long-term investments	24	24
Total other long-term receivables	**400,401**	**1,083**

On 16 April 2010, long-term RR-denominated loan was provided to CJSC HYDROMASHSERVICE, a subsidiary of Open Joint Stock Company HMS Group ("OJSC HMS Group") (Note 26), in amount of RR 400,000 with 7% annual interest rate and maturity date of 24 March 2012.

15 Retirement Benefit Obligations

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

Liability arisen from these plans was calculated by an external actuary in accordance with benefit formula based on individual census data using Projected Unit Credit Method as required by IAS 19, *Employee Benefits*. Assumptions were determined based on market conditions as at statement of financial position dates. All assumptions as of 30 September 2010 were the same as of 31 December 2009 except for discount rate. Discount rate as of 30 September 2010 was 7% (31 December 2009: 9%; 30 September 2009: 11%).

15 Retirement Benefit Obligations (Continued)

The following amounts were recognised in the profit or loss:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current service cost	4,209	825
Interest cost	7,488	2,221
Past service cost	19,712	33,523
Net actuarial loss/(gain) recognised during the period	10,547	(23,688)
Defined benefit scheme expenses	**41,956**	**12,881**

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

	30 September 2010	31 December 2009
Present value of defined benefit obligations	141,424	109,493
Unrecognised past service cost	(37,428)	(41,919)
Liability in the statement of financial position	**103,996**	**67,574**

16 Design and Engineering Contracts

During nine months ended 30 September 2010 and 2009, the revenue from design and engineering contracts was recognised in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The following figures are related to the Company's activities under design and engineering contracts:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Design and engineering contracts revenue	1,465,350	1,314,268
Contract cost expensed	(1,236,567)	(1,109,885)
Gross margin	**228,783**	**204,383**

	30 September 2010	31 December 2009
Advances received for design and engineering contracts	3,446	11,734
Retentions	29,887	16,623

The Company's financial position with respect to design and engineering contracts in progress is as follows:

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	1,207,796	750,202
Aggregate amount of recognised profits	166,570	114,687
Aggregate amount of recognised losses	(5,931)	(131)
Less: Progress billings	(946,828)	(750,856)
Gross amount due from customers for contract work	**421,607**	**113,902**

16 Design and Engineering Contracts (Continued)

	30 September 2010	31 December 2009
Aggregate amount of contract cost incurred	1,254,396	1,564,357
Aggregate amount of recognised profits	250,542	254,613
Aggregate amount of recognised losses	(141)	(505)
Less: Progress billings	(1,919,574)	(2,199,700)
Gross amount due to customers for contract work	**(414,777)**	**(381,235)**

Amounts due to and due from customers are disclosed in Notes 12 and 19, respectively.

17 Provisions for Liabilities and Charges

Provisions for liabilities and charges comprise of the following:

	Unused vacation allowance
At 1 January 2009	**39,308**
Accrued	—
Use of provision	(26,162)
At 30 September 2009	**13,146**
At 1 January 2010	**33,257**
Accrued	—
Use of provision	(10,746)
At 30 September 2010	**22,511**

18 Other Taxes Payable

Other taxes payable comprise of the following:

	30 September 2010	31 December 2009
Value added tax	48,845	94,909
Social security compensation	4,711	5,859
Personal income tax	2,391	3,916
Property tax	862	886
Land tax	462	407
Transport tax	111	122
Other taxes	1	20
Total other taxes payable	**57,383**	**106,119**

19 Trade and Other Payables

Trade and other payables comprise of the following:

	30 September 2010	31 December 2009
Trade payables	77,463	76,288
Other payables	27,636	15,663
Financial liabilities within trade and other payables	**105,099**	**91,951**
Advances from customers	3,282	1,957
Payables due to customers for design and engineering work in progress (Note 16)	414,777	381,235
Wages and salaries payable	46,327	52,525
Non-financial liabilities within trade and other payables	**464,386**	**435,717**
Total trade and other payables	**569,485**	**527,668**

The carrying amounts of financial liabilities within trade and other payables are denominated in Russian Roubles.

20 Income Taxes

Income tax expense for the nine months ended 30 September 2010 and 2009 included:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current tax	22,050	68,639
Deferred tax	21,972	(8,039)
Total income tax expense	**44,022**	**60,600**

21 Revenue

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue from design and engineering contracts	1,465,350	1,314,268
Revenue from rent	52,440	69,116
Sales of other services and goods	566	61
Total revenue	**1,518,356**	**1,383,445**

22 Cost of Sales

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	727,374	620,194
Design and engineering services of subcontractors	303,623	321,255
Raw materials and supplies	49,545	40,102
Depreciation and amortisation	44,215	49,061
Defined benefits scheme expenses	36,838	11,243
Services from third parties	27,548	48,212
Property, plant and equipment repair and maintenance	18,214	21,492
Transportation	14,387	6,808
Utilities	9,006	7,794
Recognition/(Reversal) of loss under IAS 11	5,435	(30,607)
Provision for obsolete inventories	(4,004)	2,472
Other expenses	19,097	25,686
Total cost of sales	**1,251,278**	**1,123,712**

23 Distribution and Transportation Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Advertising	1,843	204
Labour costs	1,241	—
Entertaining costs and business trip expenses	840	492
Other expenses	18	—
Total distribution and transportation expenses	**3,942**	**696**

24 General and Administrative Expenses

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Labour costs	94,857	84,083
Depreciation and amortisation	21,168	21,715
Management fees	12,626	—
Audit and consultancy services	10,577	409
Insurance	6,499	6,523
Taxes and duties	5,361	5,191
Bank services	3,770	3,462
Entertaining costs and business trip expenses	1,373	953
Defined benefits scheme expenses	5,118	1,638
Stationary and office maintenance	680	619
Security	248	229
Provisions for legal claims and uncertain tax position	49	903
Training and recruitment	34	105
Provision for impairment of accounts receivable	(17)	5,051
Other expenses	1,625	2,533
Total general and administrative expenses	**163,968**	**133,414**

25 Other Operating Expenses, Net

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Loss on sales and other disposal of property, plant and equipment and intangible assets	6,355	4,249
Charity, social expenditures	5,367	5,668
Depreciation of social assets	745	582
Fines and late payment interest under contracts	76	—
Foreign exchange gain, net	(17)	(38)
Dividend income	(4)	—
Gain on sales of inventories	—	(12)
Other expenses/(income), net	5,244	(620)
Total other operating expenses, net	**17,766**	**9,829**

26 Balances and Transactions with Related Parties

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

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

During 2009 and six months ended 30 June 2010, CJSC GTNG-Engineering held 17.07% of ordinary shares of the Company (31 December 2009: 17.07%). One of CJSC GTNG-Engineering's shareholders acted as a General Director, member of the Board of Directors and the Management Board of the Company. In addition, a number of individuals acting as members of the Management Board and the Board of Directors of the Company held non-controlling interests in the Company, both directly and indirectly through holding in CJSC GTNG-Engineering. On this basis, for the purposes of this condensed interim financial information CJSC GTNG-Engineering is considered to be a related party till 30 June 2010.

In June 2010, CJSC HYDROMASHSERVICE, a subsidiary of OJSC HMS Group, acquired 51% of ordinary shares of the Company. As a result of this change in the Company's shareholding structure, CJSC GTNG-Engineering ceased to be a related party to the Company. All the subsidiaries of OJSC HMS Group are considered to be related parties to the Company.

26 Balances and Transactions with Related Parties (Continued)

The Company's related party balances and transactions are disclosed below:

Balances with related parties	30 September 2010	31 December 2009
Trade receivables	110	1,534
— *SKMN (associate of the Company; entity is also under common control with the Company)*	*110*	—
— *GTNG-Engineering*	—	*1,534*
Other receivables	2	144
— *GTNG-Engineering*	—	*144*
— *HYDROMASHSERVICE*	*2*	—
Advances to HYDROMASHSERVICE	36,820	—
Acquisition of equity share in SKMN	428,420	—
Short-term loans advanced 7.5% p.a. to GTNG-Engineering (Note 13)	—	200,000
Long-term loans advanced 7% p.a. to HYDROMASHSERVICE (Note 14)	400,000	—
Interest on long-term loans advanced to HYDROMASHSERVICE	12,811	—
Trade payables	57,383	45,809
— *HYDROMASHSERVICE*	*57,383*	—
— *GTNG-Engineering*	—	*45,809*
Other payables from GTNG-Engineering	—	562

No impairment provision was recorded for accounts receivable from related parties.

Neither party issued guarantees to secure accounts receivable or payable.

Transactions with related parties	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Sales of services	2,969	5,716
— *GTNG-Engineering*	*1,833*	*5,716*
— *HYDROMASHSERVICE*	*1,043*	—
— *SKMN*	*93*	—
Purchase of services	(184,929)	(184,071)
— *HYDROMASHSERVICE*	*(101,082)*	—
— *GTNG-Engineering*	*(83,847)*	*(184,071)*
Interest income	12,811	2,540
— *HYDROMASHSERVICE*	*12,811*	—
— *GTNG-Engineering*	—	*2,540*

During nine months ended 30 September 2010, dividends of 9 Russian Roubles were accrued and paid to the shareholders of the Company, who are related parties of the Company (nine months ended 30 September 2009: RR 49,018).

Key management compensation

Key management compensation amounted to RR 41,881 for the nine months ended 30 September 2010 (nine months ended 30 September 2009: RR 32,113) and included short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

27 Contingencies and Commitments

(a) Legal proceeding

During the the nine months period, the Company was not involved in any court proceedings (both as a plaintiff or a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been recorded or disclosed in this condensed interim financial information.

(b) Tax legislation

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

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

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

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

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

(c) Environmental matters

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

27 Contingencies and Commitments (Continued)

(d) Insurance policies

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

(e) Contractual commitments

At 30 September 2010, the Company had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 8,333 (31 December 2009: RR 8,066).

(f) Non-cancellable operating lease

At 30 September 2010, the Company leased 3 land plots used as location for production and administration buildings owned by the Company (31 December 2009: 3 land plots). Fixed rent payments are defined in the lease contracts and denominated in Russian Roubles. For these land plots future minimum lease payments under non-cancellable operating leases are as follows:

	30 September 2010	31 December 2009
Not later than one year	1,339	1,339
Later than one year and not later than five years	5,354	5,354
Later than five years	405	1,409
Total	**7,098**	**8,102**

28 Segment Information

Management has determined a single operating segment—design and engineering services—based on the management reports which are primarily derived from financial statements, prepared in accordance with Russian accounting principles ("RAP"). The management reports are reviewed by the chief operating decision-maker ("CODM") and are used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director of the Company. The CODM evaluates performance based on operating profit. For management reporting purposes all costs and expenses are allocated to design and engineering services segment.

Segment information for the nine months ended 30 September 2010 and 2009 is as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue	1,296,588	1,515,976
Depreciation and amortisation	(37,719)	(38,786)
Operating profit	(10,464)	200,589

Reconciliation of financial information analysed by CODM to corresponding information presented in this condensed interim financial information prepared under IFRS is provided below.

28 Segment Information (Continued)

Reconciliation of revenue

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue, RAP	**1,296,588**	**1,515,976**
Design and engineering contracts percentage of completion adjustment	221,768	(132,531)
Revenue, IFRS	**1,518,356**	**1,383,445**

Reconciliation of depreciation and amortisation expense

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Depreciation and amortisation, RAP	**37,719**	**38,786**
Effect of revaluation of PP&E performed as of 1 January 2008 (deemed cost) and reclassification of intangible assets amortisation from third party services expense to amortisation expense (within cost of sales)	28,409	32,572
Depreciation and amortisation, IFRS	**66,128**	**71,358**

Reconciliation of operating profit

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Operating (loss)/profit, RAP	**(10,464)**	**200,589**
Design and engineering contracts percentage of completion adjustment	150,092	(114,063)
Depreciation and amortisation	(29,222)	(26,161)
Provision for pension liability under IAS 19 (Note 15)	(41,956)	(12,881)
Provision for unused vacation (Note 17)	10,746	26,162
Reversal of RAP provision for doubtful debts	(2,530)	22,273
Provision for impairment of accounts receivable	17	(5,051)
Reversal of RAP provision for financial assets	—	25,869
Other adjustments	4,719	(943)
Operating profit, IFRS	**81,402**	**115,794**

Revenue during the nine months ended 30 September 2010 and 2009 by geographical areas were as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue by geographical areas	**1,518,356**	**1,383,445**
Design and engineering services—domestic	1,464,784	1,309,908
Design and engineering services—export	566	4,360
Rent income and other revenue—domestic	53,006	69,177

28 Segment Information (Continued)

Revenue by customer for the nine months ended 30 September 2010 and 2009 was as follows:

	Nine months ended 30 September 2010		Nine months ended 30 September 2009	
Revenue by major customers	**Amount of revenue**	**Structure**	**Amount of revenue**	**Structure**
Revenues by customer—all geographical areas	**1,518,356**	**100%**	**1,383,445**	**100%**
Gazpromneft-Noyabrskneftegaz	581,602	38%	395,130	29%
Gazpromneft-Khantos	368,467	24%	204,924	15%
RN-UfaNIPIneft	146,645	10%	—	0%
RN-Yuganskneftegaz	135,608	9%	385,735	28%
Other (each < 10% of total revenue)	286,034	19%	397,656	29%

Information on EBITDA is not required by IFRS but the Company decided to disclose it as it is used by the shareholders. EBITDA is derived from the financial statements prepared in accordance with IFRS. For this purpose EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortisation, inventory impairment provision, provision for impairment of accounts receivable, provision for impairment of other financial assets, unused vacation provision. Reconciliation of EBITDA with IFRS Profit before income tax is as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
EBITDA, management report	**40,134**	**292,004**
Design and engineering contracts percentage of completion adjustment	150,092	(114,063)
Other adjustments	1,605	12,698
EBITDA, adjusted	**191,831**	**190,639**
Depreciation and amortisation	(66,128)	(71,358)
Non-monetary items*	(27,274)	5,758
Other income and expense	(17,027)	(9,245)
Operating profit	**81,402**	**115,794**
Finance income	38,622	56,565
Profit before income tax, IFRS	**120,024**	**172,359**

* Non-monetary items consist of provisions: provision for obsolete inventories, provision for impairment of accounts receivable, unused vacation allowance, etc.

29 Events after the Reporting Period

Change of the ultimate parent company. After the reporting period, in December 2010, the shareholders of the ultimate parent company signed a shareholders' agreement, prescribing them till 31 January 2011 to contribute their shares in H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED into the share capital of a private Cyprus entity named HMS Technologies Ltd. In accordance with this agreement, the group of shareholders comprising former shareholders of Hydroindustry LLC will have the right to appoint all members of the Boards of Directors of HMS Technologies Ltd. and of H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED, other than one director, and the group of shareholders comprising former shareholders of Hydromashinvest LLC will have the right to appoint one director to the Boards of Directors of HMS Technologies Ltd. and of H.M.S. HYDRAULIC MACHINES & SYSTEMS GROUP PUBLIC CO. LIMITED, who will oversee the control and revision function. As of the date of issuing of the condensed interim financial information the process of reorganisation has not been completed.

UNAUDITED CONDENSED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information for the year ended 31 December 2009 and the nine months ended 30 September 2010 is presented to illustrate the effect of the acquisition by the Group of 51.0% of the ordinary shares of GTNG in June 2010, as if it had occurred on 1 January 2009 (the "**Unaudited Pro Forma Financial Information**"). The Unaudited Pro Forma Financial Information presents the hypothetical results of the Group as if the acquisition occurred on 1 January 2009.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial results. It may not, therefore, give a true picture of the Group's financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future.

The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 and for the nine months ended 30 September 2010 presented below should be read in conjunction with (i) the Annual Financial Statements, (ii) the Company Interim Financial Statements, and (iii) the GTNG Financial Statements, in each case in together with the accompanying notes thereto.

The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 is based on the Annual Financial Statements and combines the historical statements of comprehensive income of HMS Group and GTNG and other applicable pro forma adjustments. The Unaudited Pro Forma Financial Information for the nine months ended 30 September 2010 is based on the Company Interim Financial Statements and combines the historical statements of comprehensive income of the Company and GTNG and other applicable pro forma adjustments.

The Unaudited Pro Forma Financial Information is compiled in a manner consistent with the accounting policies that will be adopted by the Company in preparing its next annual consolidated financial statements. The adjustments made in order to present the Unaudited Pro Forma Financial Information have been made based on available information and assumptions that management believes are reasonable.

All pro forma adjustments are factually supportable and expected to have a continuing impact on the Group.

This Unaudited Pro Forma Financial Information does not reflect the effect of the repayment of debt or other use of proceeds of the Offering.

The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 has been adjusted to reflect the acquisition of GTNG, as described in the pro forma adjustments section in the Notes to the Unaudited Pro Forma Financial Information on page F-233. The Unaudited Pro Forma Financial Information for the year ended 31 December 2009 does not reflect any trading subsequent to 31 December 2009. The Unaudited Pro Forma Financial Information for the nine months ended 30 September 2010 does not reflect any trading subsequent to 30 September 2010.

The sources of the adjustments made in order to present the Unaudited Pro Forma Financial Information are set out on page F-233 of the Financial Information.

All amounts in this unaudited condensed pro forma financial information are in thousands of Roubles, except as otherwise indicated.

Unaudited pro forma statement of comprehensive income
for the year ended 31 December 2009

	HMS Group historic information	GTNG historic information	Pro forma adjustments	Pro forma information
	(1)	*(2)*	*(A)—(C), (E)*	
Revenue	14,772,269	1,997,212	—	16,769,481
Cost of sales	(11,164,202)	(1,674,137)	(4,934)	(12,843,273)
Gross profit	**3,608,067**	**323,075**	**(4,934)**	**3,926,208**
Distribution and transportation expenses	(482,576)	(2,640)	—	(485,216)
General and administrative expenses	(1,826,419)	(200,106)	(8,740)	(2,035,265)
Impairment of goodwill	(116,998)	—	—	(116,998)
Other operating expenses (net)	(97,636)	(18,668)	—	(116,304)
Operating profit	**1,084,438**	**101,661**	**(13,674)**	**1,172,425**
Finance income	58,424	79,286	(24,180)	113,530
Finance costs	(865,140)	—	(165,545)	(1,030,685)
Share of results of associates	17,193	—	—	17,193
Profit before income tax	**294,915**	**180,947**	**(203,399)**	**272,463**
Income tax expense	(211,765)	(63,619)	40,680	(234,704)
Profit for the year	**83,150**	**117,328**	**(162,719)**	**37,759**
Profit attributable to:				
Equity holders of the Company	(18,768)	117,328	(209,828)	(111,268)
Minority interest	101,918	—	47,109	149,027
	83,150	**117,328**	**(162,719)**	**37,759**
Other comprehensive income/(loss)				
Currency translation differences	(70,502)	—	—	(70,502)
Currency translation differences of associates	1,283	—	—	1,283
Other comprehensive loss for the year	**(69,219)**	**—**	**—**	**(69,219)**
Total comprehensive income/(loss) for the year	**13,931**	**117,328**	**(162,719)**	**(31,460)**
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	(63,877)	117,328	(209,828)	(156,377)
Minority interest	77,808	—	47,109	124,917
	13,931	**117,328**	**(162,719)**	**(31,460)**

(1) The statement of comprehensive income of the HMS Group for the year ended 31 December 2009 has been extracted from the Annual Financial Statements included in the Prospectus beginning on page F-2.

(2) The statement of comprehensive income of GTNG for the year ended 31 December 2009 has been extracted from the audited annual IFRS financial statements of GTNG as at and for the years ended 31 December 2008 and 2009 included in the Prospectus beginning on page F-160.

Unaudited pro forma statement of comprehensive income
for the year ended 31 December 2009 (Continued)

Pro forma adjustments for the year ended 31 December 2009 are presented below:

	Additional depreciation expense	Additional amortisation expense	Adjustments to finance income and finance costs	Minority interest of GTNG	Pro forma adjustments
	(A)	*(B)*	*(C)*	*(E)*	
Revenue	—	—	—	—	—
Cost of sales	(4,934)	—	—	—	(4,934)
Gross profit	**(4,934)**	**—**	**—**	**—**	**(4,934)**
General and administrative expenses	(2,546)	(6,194)	—	—	(8,740)
Operating profit	**(7,480)**	**(6,194)**	**—**	**—**	**(13,674)**
Finance income	—	—	(24,180)	—	(24,180)
Finance costs	—	—	(165,545)	—	(165,545)
Profit before income tax	**(7,480)**	**(6,194)**	**(189,725)**	**—**	**(203,399)**
Income tax expense	1,496	1,239	37,945	—	40,680
Profit for the year	**(5,984)**	**(4,955)**	**(151,780)**	**—**	**(162,719)**
Profit attributable to:					
Equity holders of the Company	(5,984)	(4,955)	(151,780)	(47,109)	(209,828)
Minority interest	—	—	—	47,109	47,109
	(5,984)	**(4,955)**	**(151,780)**	**—**	**(162,719)**
Other comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the year	**(5,984)**	**(4,955)**	**(151,780)**	**—**	**(162,719)**
Total comprehensive income attributable to:					
Equity holders of the Company	(5,984)	(4,955)	(151,780)	(47,109)	(209,828)
Minority interest	—	—	—	47,109	47,109
	(5,984)	**(4,955)**	**(151,780)**	**—**	**(162,719)**

Unaudited pro forma statement of comprehensive income for the nine months ended 30 September 2010

	Company information	GTNG historic information	Pro forma adjustments	Pro forma information
	(1)	*(2)*	*(A)—(F)*	
Revenue	16,157,721	1,518,356	(538,921)	17,137,156
Cost of sales	(12,299,622)	(1,251,278)	448,218	(13,102,682)
Gross profit	**3,858,099**	**267,078**	**(90,703)**	**4,034,474**
Distribution and transportation expenses	(398,381)	(3,942)	1,943	(400,380)
General and administrative expenses	(1,374,456)	(163,968)	71,436	(1,466,988)
Other operating expenses (net)	(54,014)	(17,766)	(5,819)	(77,599)
Operating profit	**2,031,248**	**81,402**	**(23,143)**	**2,089,507**
Finance income	45,614	38,622	(13,410)	70,826
Finance costs	(668,200)	—	(41,386)	(709,586)
Share of results of associates	9,271	—	—	9,271
Profit before income tax	**1,417,933**	**120,024**	**(77,939)**	**1,460,018**
Income tax expense	(329,124)	(44,022)	25,566	(347,580)
Profit for the period	**1,088,809**	**76,002**	**(52,373)**	**1,112,438**
Profit attributable to:				
Equity holders of the Company	994,174	76,002	(82,526)	987,650
Non-controlling interest	94,635	—	30,153	124,788
	1,088,809	**76,002**	**(52,373)**	**1,112,438**
Other comprehensive income/(loss)				
Currency translation differences	(62,151)	—	—	(62,151)
Currency translation differences of associates	1,690	—	—	1,690
Other comprehensive loss for the period	**(60,461)**	**—**	**—**	**(60,461)**
Total comprehensive income for the period	**1,028,348**	**76,002**	**(52,373)**	**1,051,977**
Total comprehensive income attributable to:				
Equity holders of the Company	947,126	76,002	(82,526)	940,602
Non-controlling interest	81,222	—	30,153	111,375
	1,028,348	**76,002**	**(52,373)**	**1,051,977**

(1) The statement of comprehensive income of the Company and its subsidiaries for the nine months ended 30 September 2010 has been extracted from the Company Interim Financial Statements included in the Prospectus beginning on page F-119.

(2) The statement of comprehensive income of GTNG for the nine months ended 30 September 2010 has been extracted from the reviewed (unaudited) interim condensed IFRS financial statements of GTNG as at and for the nine months ended 30 September 2010 included in the Prospectus beginning on page F-202.

Unaudited pro forma statement of comprehensive income
for the nine months ended 30 September 2010 (Continued)

Pro forma adjustments for the nine months ended 30 September 2010 are presented below:

	Elimination of operations recognised after the acquisition	Additional depreciation expense	Additional amortisation expense	Adjustments to finance income and finance costs	Elimination of amortisation of past service cost	Minority interest of GTNG	Pro forma adjustments
	(F)	*(A)*	*(B)*	*(C)*	*(D)*	*(E)*	
Revenue	(538,921)	—	—	—	—	—	(538,921)
Cost of sales	447,427	(3,700)	—	—	4,491	—	448,218
Gross profit	**(91,494)**	**(3,700)**	**—**	**—**	**4,491**	**—**	**(90,703)**
Distribution and transportation expenses	1,943	—	—	—	—	—	1,943
General and administrative expenses	77,991	(1,910)	(4,645)	—	—	—	71,436
Other operating expenses (net)	(5,819)	—	—	—	—	—	(5,819)
Operating profit	**(17,379)**	**(5,610)**	**(4,645)**	**—**	**4,491**	**—**	**(23,143)**
Finance income	(7,607)	—	—	(5,803)	—	—	(13,410)
Finance costs	—	—	—	(41,386)	—	—	(41,386)
Profit before income tax	**(24,986)**	**(5,610)**	**(4,645)**	**(47,189)**	**4,491**	**—**	**(77,939)**
Income tax expense	14,077	1,122	929	9,438	—	—	25,566
Profit for the period	**(10,909)**	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**
Profit attributable to:							
Equity holders of the Company	(4,451)	(4,488)	(3,716)	(37,751)	4,491	(36,611)	(82,526)
Non-controlling interest	(6,458)	—	—	—	—	36,611	30,153
	(10,909)	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**
Other comprehensive income/ (loss) for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the period	**(10,909)**	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**
Total comprehensive income attributable to:							
Equity holders of the Company	(4,451)	(4,488)	(3,716)	(37,751)	4,491	(36,611)	(82,526)
Non-controlling interest	(6,458)	—	—	—	—	36,611	30,153
	(10,909)	**(4,488)**	**(3,716)**	**(37,751)**	**4,491**	**—**	**(52,373)**

Notes to Unaudited Pro Forma Financial Information

Details of GTNG acquisition

In June 2010, the Group acquired 51% of ordinary shares in GTNG for RR 2,467,330 paid in cash. Based on the acquired entity's share capital structure, 51% of ordinary shares represented the effective interest of 38.26% of total equity of GTNG. In September 2010, the Group additionally acquired 30.47% of preference shares in GTNG and increased its effective interest to 45.88%. For details of the GNTG share capital structure please refer to Note 20 of GTNG Annual Financial Statements.

Acquisition of GTNG has been accounted for using the acquisition method of accounting under IFRS. Under this method, assets and liabilities are recorded at their respective fair values on the date of acquisition, with any excess of purchase price over the fair value of net assets acquired being recorded as goodwill.

The results of GTNG's operations from the date of acquisition (June 2010) have been consolidated in the reviewed (unaudited) interim condensed consolidated IFRS financial statements of HMS Group and its subsidiaries as at and for the nine months ended 30 September 2010 and the Company Interim Financial Statements as at and for the nine months ended 30 September 2010.

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. Such assessments may change when identification and fair value measurment of identifiable intangible assets are complete.

Pro forma adjustments

(A) Additional depreciation expense. Adjustments to cost of sales and general and administrative expenses include additional depreciation expense based on the fair value of the assets acquired and the remaining useful lives. PPE acquired are depreciated over 1 to 52 years. Such depreciation may change upon final determination of the fair value of PPE acquired.

(B) Additional amortisation expense. Adjustments to cost of sales and general and administrative expenses include the effect of fair value adjustments to intangible assets. The average amortisation period is 5.5 years. Such amortisation may change upon final determination of the intangible assets to be recognised and their relevant fair values.

(C) Adjustments to finance income and finance cost. Adjustments to the interest expense include the additional interest expense associated with borrowings attributed to the Group's acquisitions of GTNG, if it happened on 1 January 2009. The advance payments, made by the Group for GTNG shares, were originally financed with the loan of Nomos Bank, obtained on 2 April 2010 (3 months before the actual acquisition date). This RUR-denominated loan, provided by Nomos Bank to finance the acquisition of GNTG, was refinanced with the loan provided by Sberbank on the date close to the acquisition date, with the interest rate of 11.3% per annum. The loan was partially redeemed with the cash acquired in GTNG acquisition on the date close to the acquisition date. For the purpose of this Unaudited Pro Forma Financial Information, it is assumed that the outstanding loan of RUR 1,465 thousands, for which the Group incurs interest expense, equals the remaining amount of the loan after partial redemption.

The adjustment to eliminate the finance income relates to the investing of cash, available in GTNG up to the acquisition and used for partial redemption of the loan from Nomos Bank.

(D) Elimination of amortisation of past service cost. This adjustment was made to eliminate the effect of amortisation of past service cost, related to the amendment in GTNG's pension plan effective 31 December 2009. The Group recognised the whole amount of unrecognised past service cost in a business combination at the acquisition date.

(E) Minority interest/Non-controlling interest of GTNG. This adjustment serves to bring the level of minority interest to the level it would have been if the Group completed its acquisition of GTNG, including post-acquisition purchase of shares in September 2010, on 1 January 2009. Minority interest of 54.12% was calculated as share of pre acquisition results of GTNG after effect of fair value adjustments to property, plant and equipment and intangible assets.

(F) Elimination of operations recognised after acquisition. This adjustment eliminates the results of GTNG recognised in the Company Interim Financial Statements' after the acquisition of GTNG that have been included both in the Company Interim Financial Statements and in the reviewed (unaudited) interim condensed IFRS financial statements of GTNG as at and for the nine months ended 30 September 2010.

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