




HMS Group
Midyear results 2011
Conference call for analysts and investors

October 4, 2011



A solid red square.

Disclaimer

A vertical strip of four images on the left side of the page. From top to bottom: 1. A large industrial pipe or vessel. 2. A close-up of a mechanical component. 3. A large industrial structure, possibly a crane or part of a ship. 4. A factory interior with machinery.

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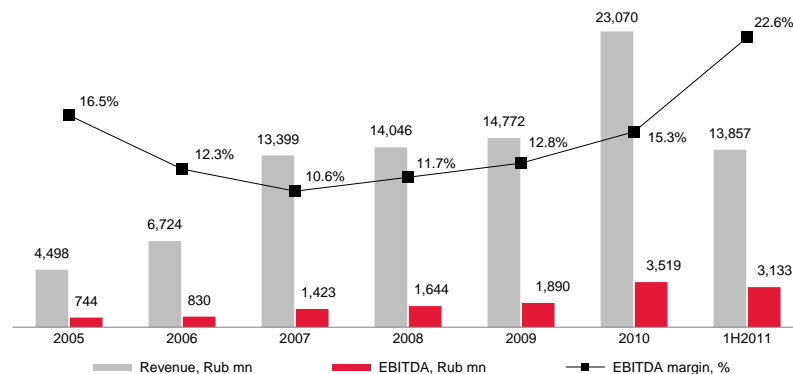
WHO WE ARE

HMS at a Glance

Key investment highlights

- Growing markets in Russia and the CIS:
 - ✓ oil & gas
 - ✓ power generation
 - ✓ water
- Leader in flow control solutions on these markets
- Best team in Russia:
 - ✓ management
 - ✓ sales
 - ✓ research & development
- Resilient financial growth and healthy debt position

Key financial indicators for 2005-1H'11



Source: Company data

1H'11 key financials contribution by business segments

1H'11 total revenue Rub 13,857 mn

EBITDA adj. Rub 3,133 mn

profit for the period Rub 2,082 mn

Industrial pumps

Revenue Rub 8,518 mn
EBITDA adj. Rub 2,574 mn



Pump station of Baltic pipeline system, Transneft

Oil & gas equipment

Revenue Rub 2,320 mn
EBITDA adj. Rub 127 mn



Oilfield Pump Station 2, Vankor oilfield, Rosneft

EPC

Revenue Rub 2,798 mn
EBITDA adj. Rub 356 mn

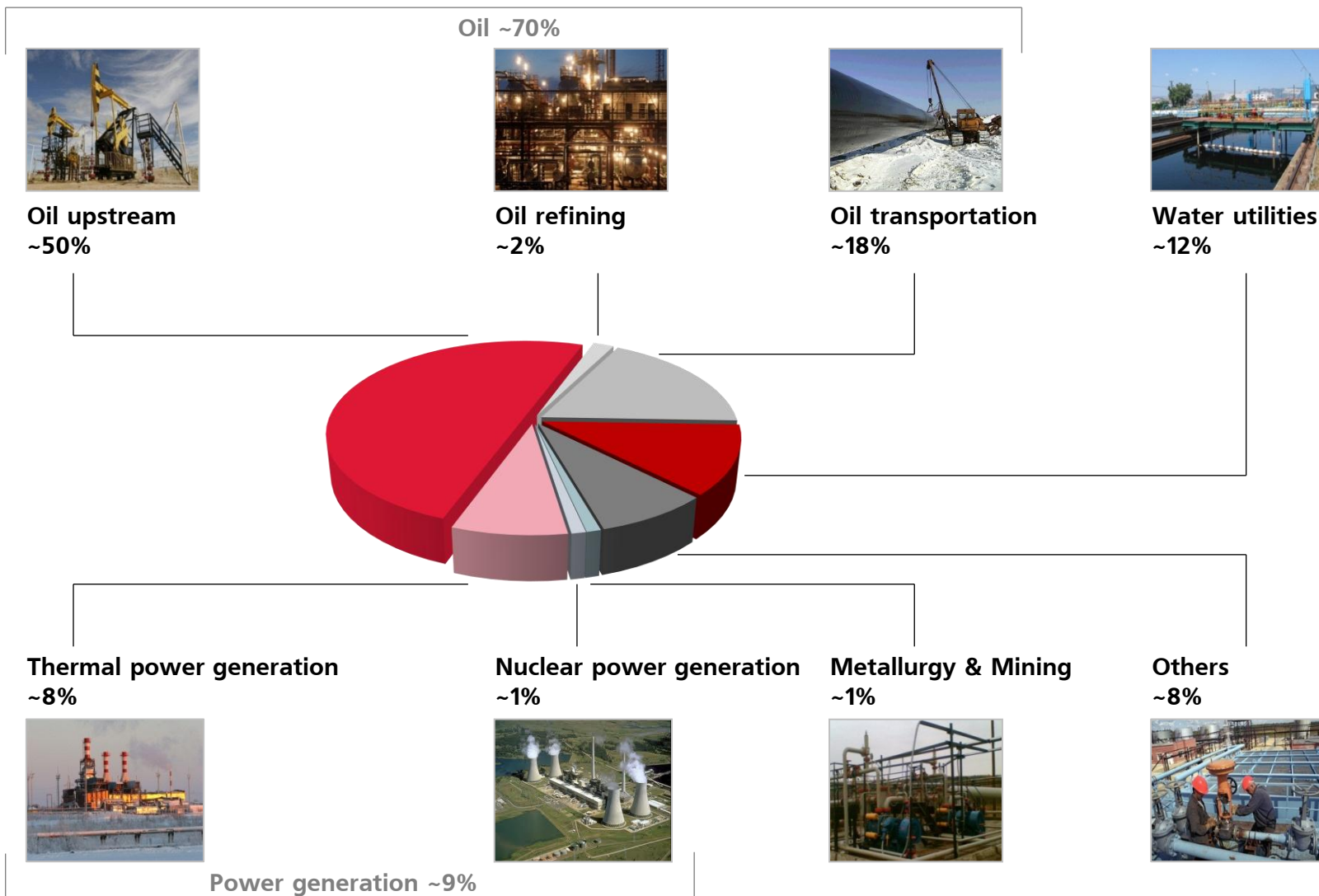


Oil Pump Station "Tayezhnaya", Transneft

Notes: Hereinafter "EBITDA" read as "EBITDA adjusted", "EBITDA margin" read as "EBITDA adjusted margin" and "Net Income" read as "Profit for the period/year"

HMS Group Positioning

Revenue contribution by industries



Source: Management accounts

Note: "Others" include general industry pumps and other auxiliary equipment



FINANCIAL PERFORMANCE

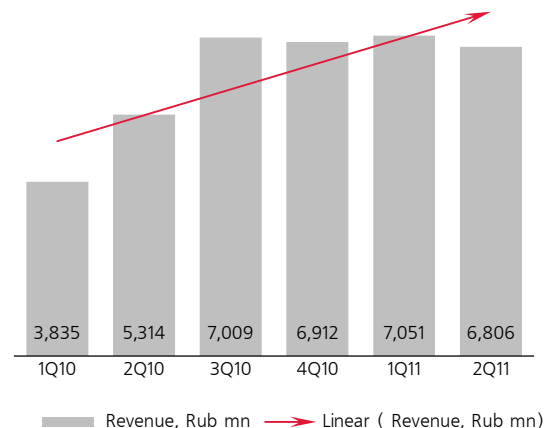
Financial Highlights for 1H 2011

Significant growth of revenues

Rub, mn	1H 2011	1H 2010	chg, yoy
Revenue	13,857	9,149	+51.5%
Gross profit	4,292	2,182	+96.7%
EBITDA	3,133	1,140	+174.8%
Operating profit	2,743	1,035	+164.9%
Net income (loss)	2,082	388	+436.8%
Total debt	4,599	6,361	(27.7%)
Net debt	4,105	4,489	(8.6%)
Net debt to EBITDA LTM ratio	0.7	2.1	
Gross margin	31.0%	23.8%	+713bps
EBITDA margin	22.6%	12.5%	+1,015bps
Operating margin	19.8%	11.3%	+847bps
Net income margin	15.0%	4.2%	+1,079bps

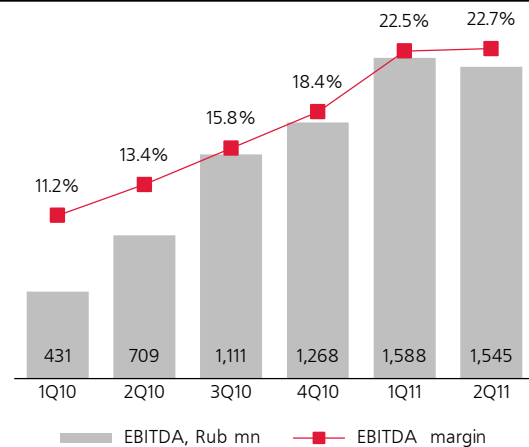
Source: Company data

Revenue performance



Source: Company data

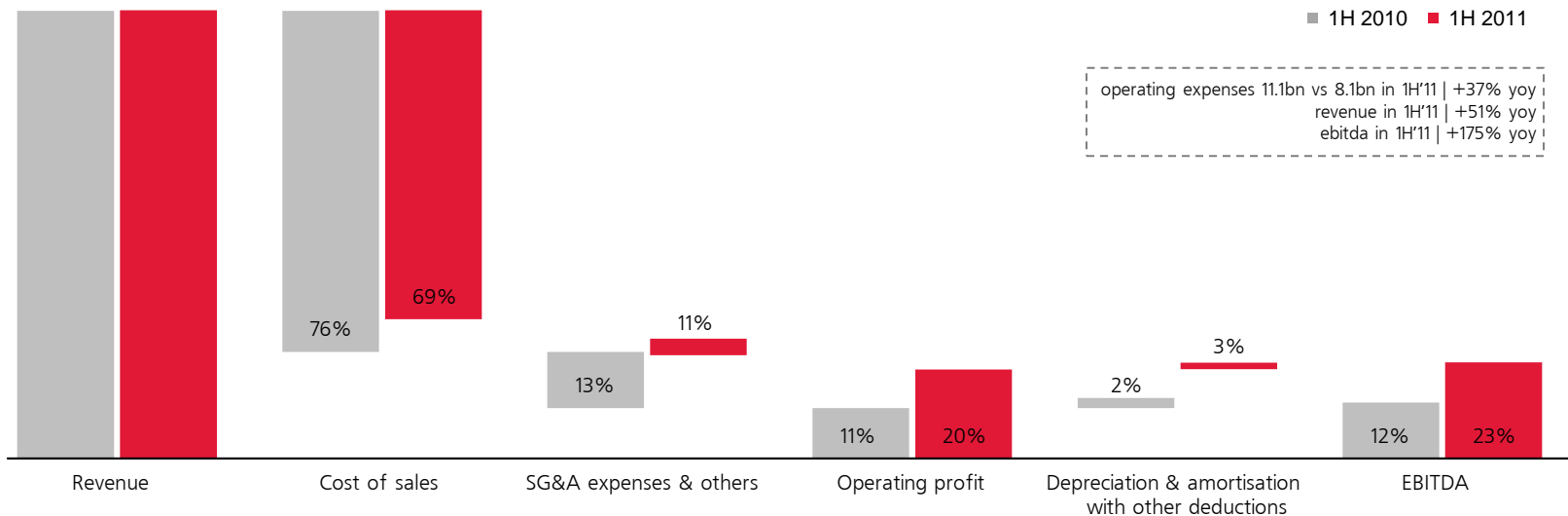
EBITDA and EBITDA margin performance



Source: Company data

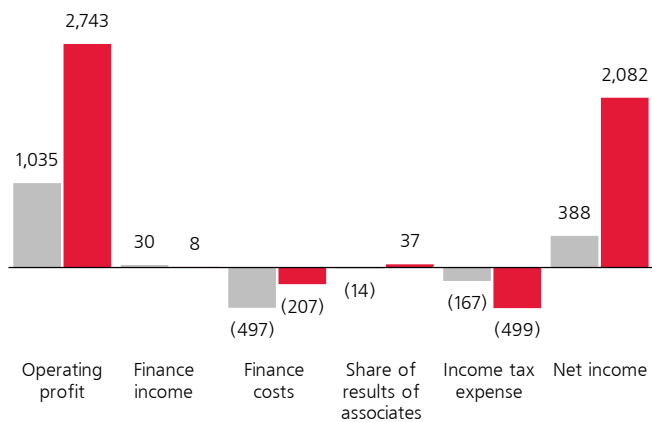
EBITDA Development in 1H 2011

EBITDA key drivers, % of revenue



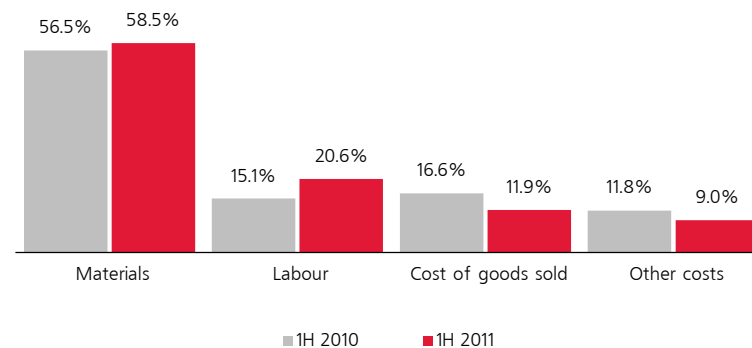
Source: Company data

Net income components, Rub mn



Source: Company data

Cost of sales components, Rub mn

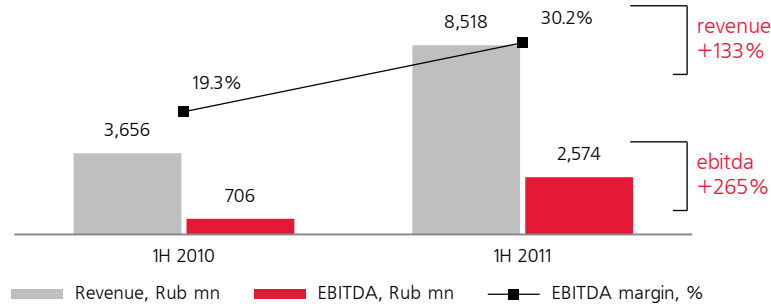


Source: Company data

Revenue & EBITDA Contribution by Segments

Highlights by core business segments, Rub mn

Industrial Pumps

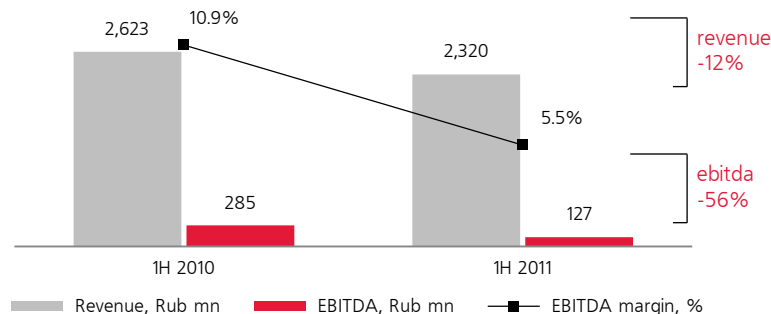


Comments

Industrial Pumps:

- Revenue increased by 133% yoy and amounted to Rub 8,518 mn
- EBITDA margin grew to 30.2%
- Execution of the project in the oil transportation segment as well as stable order intake in other market segments resulted in healthy EBITDA and EBITDA margin growth
- Revenue from industrial pumps excluding integrated solutions grew by 8% with EBITDA margin of 20% due to growth of demand and effective cost control

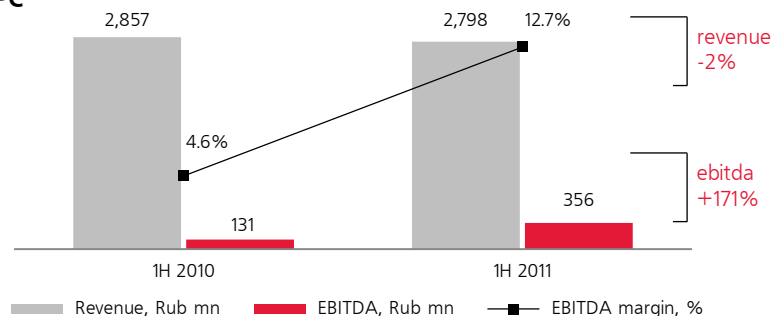
Oil & gas equipment



Oil & gas equipment:

- Revenue contracted by 12% yoy
- EBITDA margin decreased to 5.5%
- Absence of orders for integrated solutions in 1H affected margin performance
- Standard equipment margin declined after crisis as a result of the competition growth in this segment
- Situation is expected to brighten in 2H owing to the contracts for integrated solutions to be signed in 2H 2011 and entrance into new market segments, e.g. associate gas processing

EPC



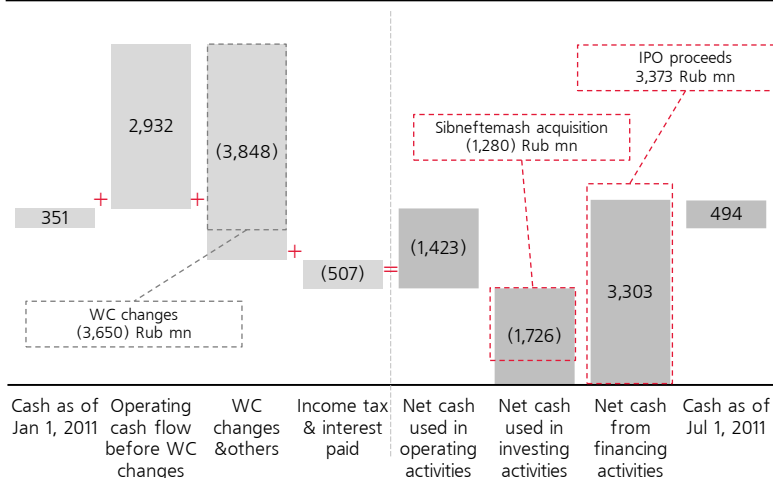
EPC:

- Revenue down 2% to Rub 2,798 mn
 - Construction revenue declined to Rub 1,637 mn due to intentional rejection of low-margin contracts
 - Project & design revenue up to Rub 1,170 mn, mainly due to GTNG acquisition
- Healthy margin in construction sub-segment and superior margin in project & design (5.3% and 23.1% respectively) resulted in 12.7% of EBITDA margin in EPC segment
- Despite recent signature of several large contracts, the Group sticks to conservative projections on construction development

CAPEX & Working Capital as of 30 June 2011



Cash flow performance in 1H 2011, Rub mn

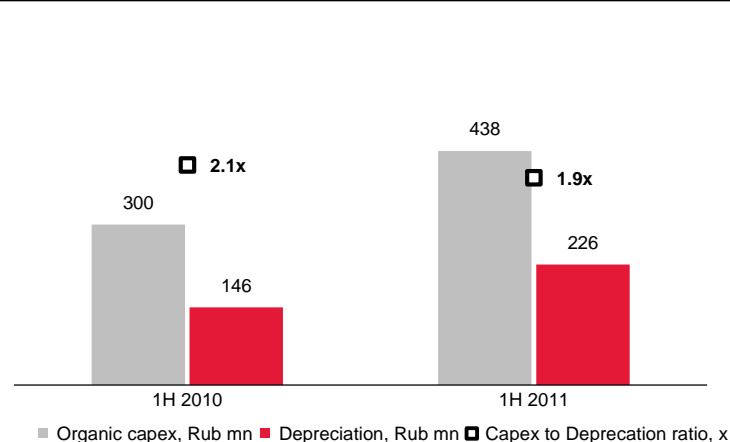


Source: Company data

Comments

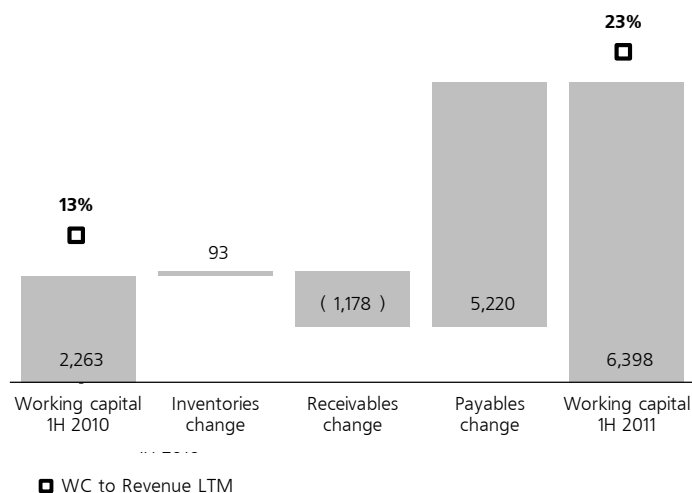
- HMS Group generated Rub 2,932 bn of operating cash flow before changes in working capital
- Substantial working capital increase in 1H 2011 led to the negative operating cash-flow due to ongoing execution of the large infrastructure oil transportation contract with significant advance payments received last year
- Working capital is expected to fit target range of 10-15% of revenue with positive operating cash flow in 1H 2012 as a result of:
 - ✓ Next payment of about Rub 2 bn under the contract
 - ✓ Prepayments on contracts signed in 2H'11, and contracts in process of signing
- Investing cash flow consisted of:
 - ✓ Organic capex of Rub 438 mn, in line with target level of 1.5-2.5 times depreciation
 - ✓ Acquisition of Sibneftemash – Rub 1,280 mn
- Financing cash flow was supported by IPO proceeds of Rub 3,373 mn

Capital expenditures in 1H 2011 vs 1H 2010



Source: Company data

Working capital as of 30 June 2011, Rub mn

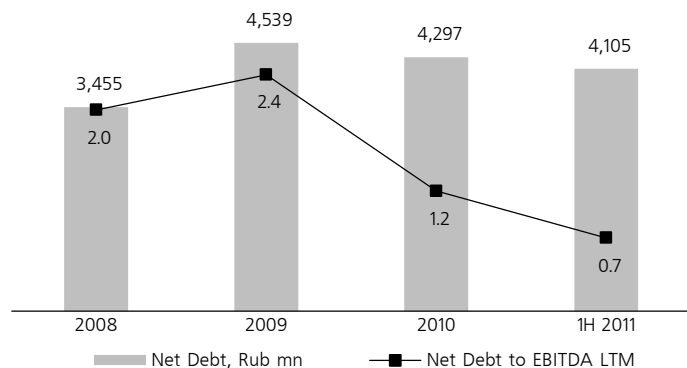


Source: Company data

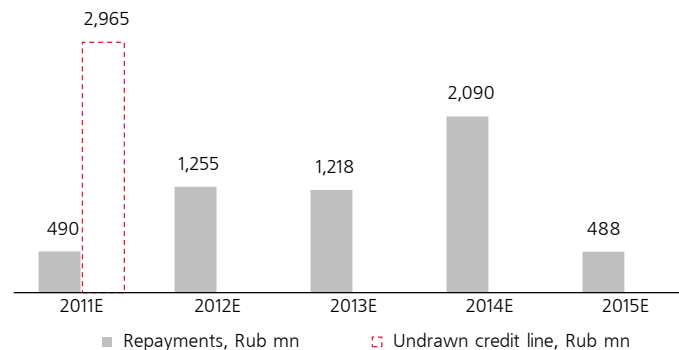
Healthy Debt Position

Moderate leverage...

...with comfortable repayment schedule...



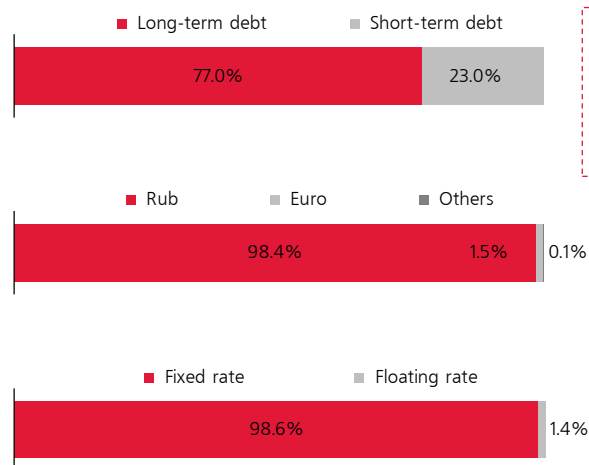
Source: Company data



Source: Company data as of 01 September, 2011

...and low currency and maturity risks

Comments



S&P corporate credit rating:
BB-
Outlook:
Stable

- Low leveraged business profile with Net Debt to EBITDA LTM ratio of **only 0.7**
- Easy access to additional liquidity with more than **Rub 2.97 bn** of undrawn credit facilities (as of 01 September, 2011)
- Steady debt repayment schedule with negligible currency risk and prudent maturity structure
- More than 98% of Rub-nominated debt **with fixed interest rate**
- Weighted average interest rate of **8.7%**, down from 11% a year ago, while interest coverage ratio grew to **14.5**

Source: Company data as of 01 July, 2011

2011 & 2012 BUSINESS UPDATE & OUTLOOK



HMS Group Recent Acquisitions

Sibneftemash acquisition

Key financials, RAS

1H'11 Revenue Rub 485 mn

1H'11 EBITDA Rub 79 mn

1H'11 EBITDA margin 16%

Deal details:

Rub 1,292 mn for 98.6% of the company

Bobruisk Machine Building Plant acquisition

Key financials, BAS

1H'11 Revenue Rub 222 mn

1H'11 EBITDA Rub 30 mn

1H'11 EBITDA margin 13%

Deal details:

US\$ 9.7 mn for 57% of the company (primary stock)

Acquisition rationale

- Broadening of HMS Group product portfolio
- Complementary equipment
- Potential growth of revenue and EBITDA margin:
 - Sales power and R&D capability of HMS Group
 - Well-known brands and/ or technical equipment base of acquired companies
- Attractive multiples

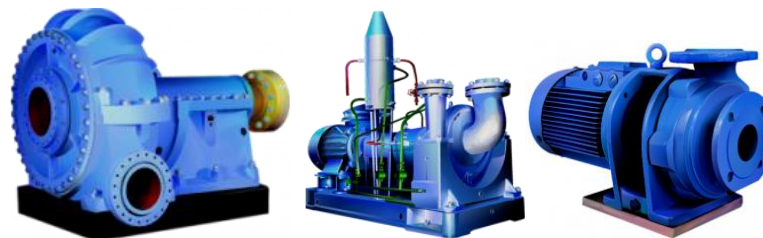
Products portfolio

- Tanks and vessels for oil and oilfield services companies



Products portfolio

- Pumps for oil refining and metallurgy & mining applications



Backlog

Backlog structure performance

- 1
 Revenue recognition depends on production period for various type of equipment and the nature of the project. As of June 30, 2011 backlog became more diversified with approximate ESPO contribution of 1/3 versus 2/3 last year, that resulted in higher backlog turnover

- 2
 HMS Group has a substantial amount of regular orders (usually, sale from warehouses), which is not reflected as a backlog. Overall revenue from these orders is expected at Rub 2-3 bn pa

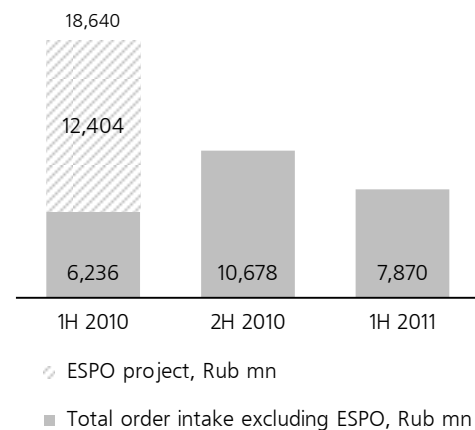
Rub mn	1H 2011	1H 2010	chg, YoY	Production period
Oil transportation pumps	4,914	11,506	(57%)	12-36 months
Construction component of EPC	1,492	2,796	(47%)	6-18 months
Other equipment	7,323	5,093	+44%	2-8 months
Total backlog	13,728	19,396	(29%)	

Order Intake

Comments

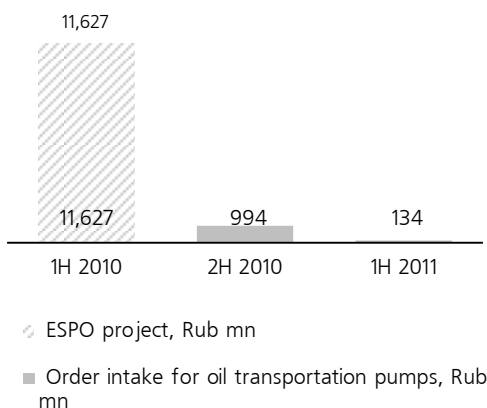
- Order intake growth in 1H was driven by regular orders (Rub 5-300 mn) across all business segments except construction and oil transportation
- Order intake in oil transportation contracted due to the execution of the ESPO project
- Order intake in construction segment contracted as the company intentionally rejected low-margin contracts
- Seasonally, 2H is stronger than 1H in terms of new orders
- Growing number of Rub 1-3 bn orders (ESPO and Vankor expansion, new oilfields and nuclear plants) are expected to become the core driver of HMS Group's revenue going forward

Total order intake



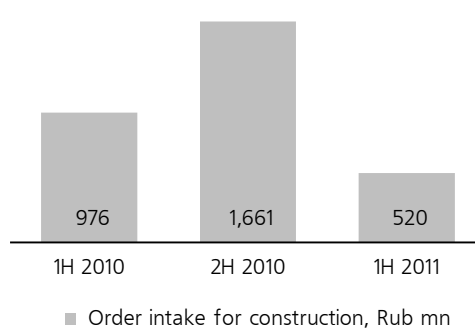
Source: Company data, Management accounts

Oil transportation pumps



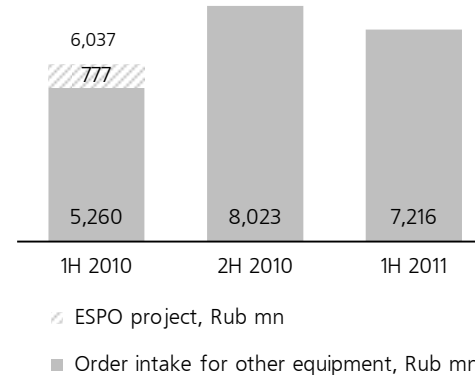
Source: Company data, Management accounts

Construction segment of EPC



Source: Company data, Management accounts

Other equipment



Source: Company data, Management accounts

HMS Group Recent Selected Contracts

HMS Group successfully works on its order book and future growth

- HMS Group passed the pre-qualification audit by ENI (07 July, 2011)
- Rub 500 mn : HMS Group to produce modular equipment to an oilfield in Eastern Siberia (08 July, 2011)
- Rub 300 mn : HMS Group to carry out design works for a Western Siberia gas condensate field (11 July, 2011)
- Rub 1 bn : HMS Group signed a new contract on construction for a gas field in Western Siberia (01 September, 2011)
- Rub 570 mn : HMS Group signed a new aftermarket contract for an oilfield in Eastern Siberia (29 September, 2011)

Selected End-market Projects for Mid-term



Increased number of HMS end-market projects

Project	Brief description	Completion	Key metrics	Comments
Rosneft				
✓ Vankor 2 stage	Further development. Capex for 2011 US\$ 2.6 bn	next stage by 2014	Min capex Rub 480 bn	HMS won a number of tenders
Yurbcheno-Tokhomsk oilfield	Feasibility study under preparation, depends on tax concessions	by 2014	Planned production 20mt	
Associated gas utilization program (Komsomolskoe, Priobskoe oilfields)	Achievement of 95% level of associated gas utilization			HMS participated in previous stages
Lukoil & Bashneft JV				
Trebs and Titov fields	Joint development of the fields, in stage of project development. Reserves 141 mt	by 2013	Capex US\$5-6 bn	HMS has good references for previous projects
Transneft				
ESPO expansion	9 oil-pumping stations to be constructed to deliver oil to Khabarovsk and Komsomolsk refineries by 2015	9 OPS by 2015		HMS participated in previous stages
✓ Zapolyarye – Pur-pe pipeline	Oil transportation from YANAO and Northern Krasnoyarsk region oilfields	4 OPS by 2015	Capex Rub 120 bn	HMS participates in a project design
ESPO expansion	4 OPSs to be constructed to deliver oil to Primorsk refinery by 2017	4 OPS by 2017		HMS participated in previous stages
Pur-pe – Samotlor expansion	Construction of 2 OPS. Total capex in 2011 Rub 77 bn	2 OPS by 2017		HMS participated in previous stages
TNK-BP				
Russkoe oilfield	Giant oilfield in YANAO with specific oil. Project production 20 mtpa		Capex US\$ 4.5 bn	HMS participates in a project design
Samotlor	Further development of an active oilfield in Nizhnevartovsk.	by 2014	Capex US\$ 4.6 bn	HMS participated in previous stages
Uvat	21 oilfields in Tyumen region			HMS participated in previous stages
✓ East- and Novo- Urengoy gas & condensate fields	Planned production for 2011 is 3.2bcm, up 17% on 2010			HMS participates in a project design
Verkhnechonsk oilfield	Oilfield located in the Eastern Siberia, Irkutsk region. Development was stimulated by close proximity of ESPO pipeline.	Peak production by 2014	Additional US\$3-4 bn	HMS participated in previous stages
Gazprom				
Shtokman gas and condensate field	The field will become a resource base for Russian pipeline gas and liquefied natural gas (LNG) exports to the Atlantic Basin markets			HMS produces units for complex gas preparation
Gazprom Neft				
Priobskoe oilfield	Western Siberia. Recoverable reserves ~600 mt			HMS participates in a project design
Urmanskoe and Shinginskoe oilfields	Eastern Siberia			
Sberbank Capital				
Dulisma oilfield	Irkutsk region. Further development. 3 rd resource base for ESPO		Total reserves 15 mt	HMS participated in previous stages
Taas-yuriah oilfield	Sakha region. Further development. Total reserves ~130 mt		Capex Rub 15-30 bn	
Iraq				
Rumaila brownfield	Consortium headed by BP		Capex US\$ 15 bn	HMS already submitted technical survey
Az Zubair	Consortium headed by Eni		Capex US\$ 20 bn	HMS participates in a tender
Municipal water				
Central Asia	Irrigation stations for Uzbekistan and Turkmenia			HMS has good references from previous projects
✓ Contracts signed				

Contacts and HMS Group Key Details

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HMS Hydraulic Machines & Systems Group Plc is listed on the London Stock Exchange

Identifier	Number	Number of shares outstanding
ISIN	US40425X2099	117,163,427
Ticker	HMSG	
Bloomberg	HMSG LI	
Reuters	HMSGq.L	

Credit Rating

Standard & Poor's

BB- (Outlook stable) as of 16 June, 2011



APPENDIX

Calculations

Notes to the presentation and formulas used for some figures' calculations

- All figures in millions of Russian Rubles, unless otherwise stated
- 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
- EBITDA is defined as operating profit/loss adjusted for other operating income/expenses, depreciation and amortization, impairment of assets, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, defined benefits scheme expense, warranty provision, provision for legal claims, provision for VAT and other taxes receivable, other provisions, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects of non-recurring income and expenses on the results of the operating segments
- EBIT is calculated as Gross margin minus Distribution & transportation expenses minus General & administrative expenses
- Total debt is calculated as Long-term borrowings plus Long-term financial lease liabilities plus Short-term borrowings plus Short-term financial lease liabilities
- Net debt is calculated as Total debt minus Cash & cash equivalents at the end of the period
- Working capital is calculated as Inventories plus Trade and other receivables minus Trade and other payables
- Backlog is calculated as the preceding backlog plus new or additional customer orders booked during the reporting period, less amounts of contract value booked as revenue under "Russian GAAP" on an unconsolidated basis under the relevant contracts, plus or minus adjustments made in the judgment of the Group's management. 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 recognized under such contracts. 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

Statement of Financial Position



RUB, '000	30 June 2011	31 December 2010
ASSETS		
Non-current assets:		
Property, plant and equipment	6,486,500	5,948,674
Other intangible assets	380,488	310,156
Goodwill	2,348,255	1,783,915
Investments in associates	523,324	507,141
Deferred income tax assets	98,618	130,779
Other long-term receivables	50,536	27,123
Total non-current assets	9,887,721	8,707,788
Current assets:		
Inventories	3,623,361	2,840,745
Trade and other receivables and other financial assets	8,681,888	10,399,853
Current income tax receivable	51,856	38,086
Prepaid expenses	32,448	39,361
Cash and cash equivalents	493,999	351,086
Restricted cash	5,197	4,978
Total current assets	12,888,749	13,674,109
Non-current assets held for sale	53,850	96,095
Total current assets	12,942,599	13,770,204
TOTAL ASSETS	22,830,320	22,477,992
EQUITY AND LIABILITIES		
EQUITY		
Share capital	48,329	42,510
Share premium	3,523,535	210,862
Currency translation reserve	(417,946)	(234,785)
Retained earnings	4,887,224	2,897,296
Other reserves	122,852	38,987
Equity attributable to the shareholders of the Company	8,163,994	2,954,870
Non-controlling interest	1,532,288	1,508,263
TOTAL EQUITY	9,696,282	4,463,133
LIABILITIES		
Non-current liabilities:		
Long-term borrowings	3,528,388	3,864,176
Finance lease liability	-	9
Deferred income tax liability	1,082,918	745,762
Pension liability	256,996	262,525
Provisions for liabilities and charges	45,607	35,691
Total non-current liabilities	4,913,909	4,908,163
Current liabilities:		
Trade and other payables	5,907,622	10,799,358
Short-term borrowings	1,068,698	775,242
Provisions for liabilities and charges	327,839	312,213
Finance lease liability	2,288	8,446
Pension liability	14,485	24,736
Current income tax payable	18,654	115,340
Other taxes payable	880,543	1,071,361
Total current liabilities	8,220,129	13,106,696
TOTAL LIABILITIES	13,134,038	18,014,859
TOTAL EQUITY AND LIABILITIES	22,830,320	22,477,992

Statement of Comprehensive Income

Rub,'000	Six months ended 30 June 2011	Six months ended 30 June 2010
Revenue	13,857,464	9,149,003
Cost of sales	(9,564,991)	(6,967,040)
Gross profit	4,292,473	2,181,963
Distribution and transportation expenses	(387,385)	(260,016)
General and administrative expenses	(1,019,510)	(845,719)
Other operating expenses, net	(143,071)	(40,923)
Operating profit	2,742,507	1,035,305
Finance income	7,981	30,077
Finance costs	(206,740)	(496,684)
Share of results of associates	36,976	(13,914)
Profit before income tax	2,580,724	554,784
Income tax expense	(498,760)	(166,971)
Profit for the period	2,081,964	387,813
Profit attributable to:		
Shareholders of the Company	1,989,928	371,001
Non-controlling interest	92,036	16,812
Profit for the period	2,081,964	387,813
Currency translation differences	(238,951)	43,060
Currency translation differences of associates	(6,791)	4,839
Other comprehensive (loss)/income for the period	(245,742)	47,899
Total comprehensive income for the period	1,836,222	435,712
Total comprehensive income attributable to:		
Shareholders of the Company	1,806,767	412,211
Non-controlling interest	29,455	23,501
Total comprehensive income for the period	1,836,222	435,712
Basic and diluted earnings per ordinary share for profit/(loss) attributable to the ordinary shareholders (expressed in Rub per share)	17.44	3.62

Cash Flow Statement



RUB,'000	Six months ended 30 June 2011	Six months ended 30 June 2010
Cash flows from operating activities		
Profit before income tax	2,580,724	554,784
Adjustments for:		
Depreciation and amortisation	302,546	154,840
Loss/(gain) from disposal of property, plant and equipment and intangible assets	6,364	(9,322)
Finance income	(7,981)	(29,236)
Finance costs	198,756	496,684
Pension expenses	1,102	33,207
Warranty provision	(35,738)	9,216
Interest expense related to construction contracts	2,594	3,815
Provision for impairment of accounts receivable	(83,795)	(16,681)
Investments impairment provision	341	(143)
Provision for obsolete inventories	26,183	(115,093)
Foreign exchange translation differences	7,984	(841)
Provision for VAT receivable	(11,327)	5,321
Provisions for legal claims	(18,313)	(12,492)
Share of results of associates	(36,976)	13,914
Loss from disposal of subsidiary	-	4,369
Other non-cash items	(468)	(1,456)
Operating cash flows before working capital changes	2,931,996	1,090,886
Increase in inventories	(769,019)	(184,578)
Decrease/(increase) in trade and other receivables	1,640,600	(5,983,497)
(Decrease)/increase in other taxes payable	(197,670)	803,368
(Decrease)/increase in accounts payable and accrued liabilities	(4,521,724)	7,264,719
Restricted cash	219	360
Cash (used in)/generated from operations	(915,598)	2,991,258
Income tax paid	(311,625)	(127,252)
Interest paid	(195,798)	(511,611)
Net cash (used in)/from operating activities	(1,423,021)	2,352,395
Cash flows from investing activities		
Repayment of loans advanced	-	3,033
Loans advanced	-	(2,401)
Proceeds from sale of property, plant and equipment and intangible assets	7,683	6,220
Interest received	-	4,275
Dividends received	14,002	15,288
Purchase of property, plant and equipment	(438,160)	(300,496)
Cash received from disposal of subsidiary	-	7,475
Acquisition of intangible assets	(29,888)	(8,400)
Acquisitions of subsidiaries, net of cash acquired	(1,280,000)	(2,339,457)
Net cash used in investing activities	(1,726,363)	(2,614,463)
Cash flows from financing activities		
Repayments of borrowings	(6,262,415)	(5,257,621)
Proceeds from borrowings	6,214,859	6,301,637
Payment for finance lease	(6,157)	(6,918)
Acquisition of non-controlling interest in subsidiaries	-	(33,945)
Cash received from additional share issue of subsidiary	-	428,420
Proceeds from share issue, net of issue costs	3,372,516	-
Dividends paid to non-controlling shareholders of subsidiaries	(15,863)	(145,937)
Cash received from capital contribution	-	85,817
Net cash from financing activities	3,302,940	1,371,453
Net increase in cash and cash equivalents	153,556	1,109,385
Effect of exchange rate changes on cash and cash equivalents	(10,643)	3,555
Cash and cash equivalents at the beginning of the period	351,086	758,127
Cash and cash equivalents at the end of the period	493,999	1,871,067

Source: Company data