HMS Group

FY 2012 IFRS Results
Conference call presentation

29 April 2013

Financial results

Business & Outlook

Appendix

Achievements 2012: strategy update

Strategic Goals	Strategic Targets	Development in 2012
Focus on high value-added products	▪ Higher margin than stand-alone products and services ▪ HMS Group's largest customers more often prefer to work with manufacturers that can offer integrated and customized solutions ▪ Creates strong ties with customers, pull-through demand for aftermarket services	✓ 2012 EBITDA margin 18.5% on the back of 24% share of integrated solutions in revenue ✓ New contracts for integrated solutions: Vankor (second stage), ESPO-1 extension, 3 water stations in Turkmenistan, Nuclear contracts.
Strengthen position in core markets	▪ Take advantage of positive market trends in existing core markets ▪ Organic expansion into attractive market segments ▪ Increase of aftermarket services component to generate higher-margin and regular cash flows ▪ Core export opportunities: water projects in Central Asia, Rosatom nuclear contracts, O&G in Kazakhstan and Iraq	✓ A number of new material contracts signed thanks to successful delivery on the previous stages, including the follow-up ESPO, Vankor, water stations in Turkmenistan, nuclear pumps for China Nuclear Energy Industry Corporation ✓ Entrance into gas condensate and associated petroleum gas markets (project&design) ✓ Entrance into compressor market
Expand R&D capabilities	▪ Leverage leading R&D capabilities in order to develop next-generation customized pumps, technological upgrades and integrated pump systems ▪ Work closely with customers to develop technical policies and standards	✓ Continued working on new models of pumps and equipment, including high efficiency D-type pump, high-tech feed pump PA 1840-80, innovative measuring equipment Mera MFR, etc.
Improve operational efficiency	▪ Commitment to integration and optimization of current production assets and commitment to increase synergies between acquired businesses ▪ Standardization and continuous improvement of operations and business processes (e.g. ERP, budgeting and reporting methodology and software development, etc.)	✓ Start of KKM and Apollo integration ✓ Completed integration of Sibneftemash and Bobruisk ✓ Continued Oracle HFM implementation; ✓ Continued Infor LN (ERP) installation
Pursue selective and value enhancing acquisitions	▪ Our targets are technology and R&D facilities ▪ Pursue acquisition opportunities in high-growth sectors where HMS has limited presence ▪ Search for cost and revenue synergies	✓ Acquisitions of Kazankompressormash: new promising compressor market ✓ Acquisition of Apollo: obtaining a unique engineering expertise and strong product portfolio of pumps for oil refineries and off-shore applications

HMS Group Financial Highlights

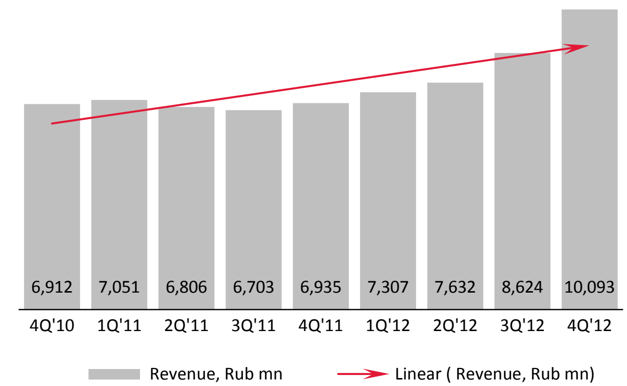
Financial highlights, Rub mn

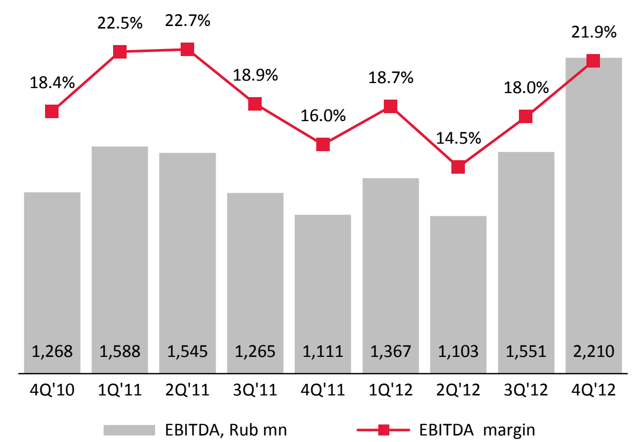
4Q’11	4Q’12	chg, qoq		2011	2012	chg, yoy
6,935	10,093	+46%	Revenue	27,496	33,656	+22%
2,055	3,279	+60%	Gross profit	8,365	10,010	+20%
1,111	2,210	+99%	EBITDA [1]	5,509	6,231	+13%
665	1,465	+120%	Operating profit	4,547	4,237	-7%
434	808	+86%	Net income [1]	3,377	2,301	-32%
6,408	13,410	+109%	Total debt	6,408	13,410	+109%
4,809	12,064	+151%	Net debt [2]	4,809	12,064	+151%
0.9	1.9		Net debt to EBITDA	0.9	1.9	
29.6%	32.5%	+286 bps	Gross margin	30.4%	29.7%	-70 bps
16.0%	21.9%	+588 bps	EBITDA margin [1]	20.0%	18.5%	-152 bps
9.6%	14.5%	+493 bps	Operating margin	16.5%	12.6%	-395 bps
6.3%	8.0%	+175 bps	Net income margin	12.3%	6.8%	-544 bps
			ROCE [3]	32.4%	18.7%	
			ROE [4]	40.9%	18.0%	

Source: Company data

[1] Hereinafter, read EBITDA as EBITDA adjusted, Net income as Profit for the period / year, EBITDA margin as EBITDA adjusted margin
[2] Net debt = Total debt – Cash & cash equivalents
[3] ROCE = EBIT LTM / average capital employed
[4] ROE = total equity period average / profit for the year

HMS key financials

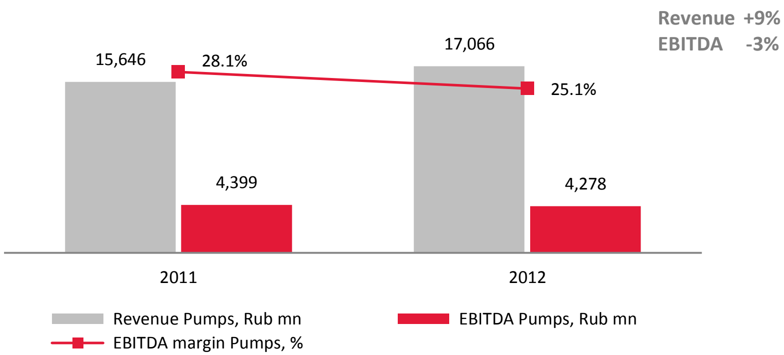




Source: Company data

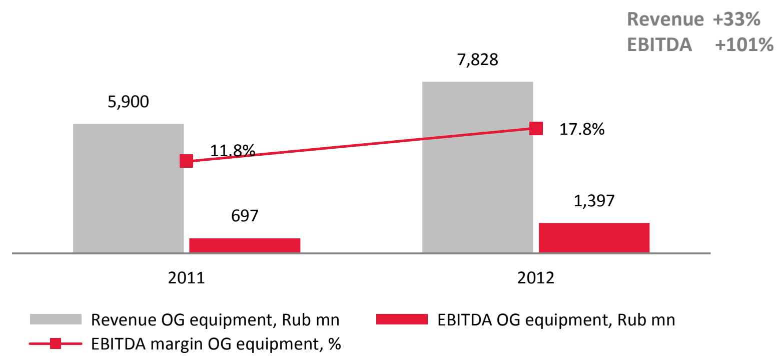
Revenue & EBITDA Contribution by Segments

Pumps



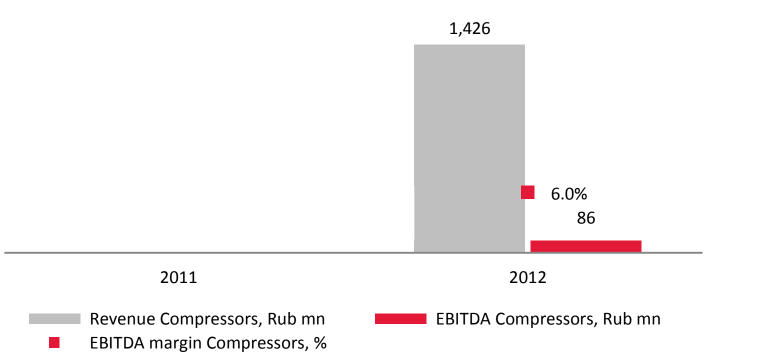
- Inflow of small and medium orders as well as a number of large-scale projects resulted in Pumps segment revenue growth
- Smaller sales share of high-margin contracts lowered FY 2012 EBITDA and EBITDA margin

Oil & gas equipment



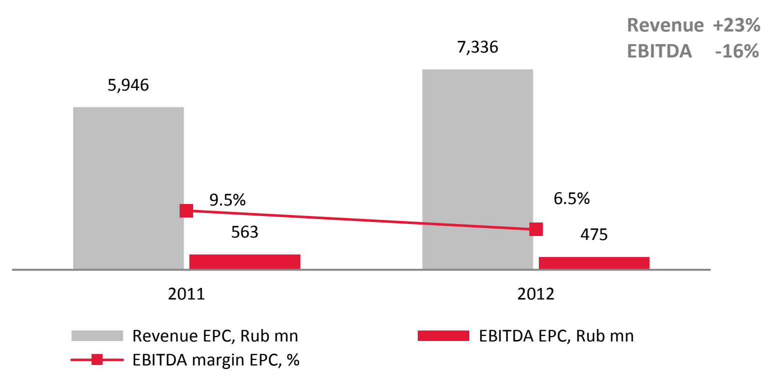
- Revenue grew by 33% and EBITDA by 101% compared to 2011, primarily driven by the Vankor project and consolidation of Sibneftemash, acquired in 2011
- As a result, EBITDA margin reached 17.8% vs. 11.8% last year

Compressors



- New business segment for HMS Group. In July 2012, HMS Group acquired Kazankompressormash, consolidated in 2H 2012 financial results
- Previously KKM hasn't applied IFRS for it's financial reporting, and that makes impossible to compare results on yoy basis

EPC



- Revenue growth by 23% was driven by new contracts for oilfield infrastructure construction
- EBITDA contraction by 16% yoy resulted in lower EBITDA margin, mainly because of GTNG's margin drop and operating losses caused by challenges with the EPC project at the Srednebotuobinskoye oilfield

Source: Company data

Compressors business segment

KKM: Half-year with HMS Group

Financial results

- Since the date of acquisition Revenue of Rub 1,426 mn and EBITDA of Rub 86 mn are included in HMS' consolidated statement for FY 2012
- Year-on-year and quarter-on-quarter comparison is not relevant as HMS applied IFRS accounting principles for KKM reporting since Q3 2012

Operating results

- Signed 2 contracts totaled Rub 2 bn for compressor stations (integrated solutions)
- Record high 2012 backlog of Rub 2.3 bn and expected strong inflow of new contracts for compressors and based on them integrated solutions

Acquisition of a compressor design center in April 2013

- In April 2013, HMS acquired 61.75% of NIITurbokompressor
- Integrated with KKM: the R&D center holds 15.77% of KKM
- The largest applied center for compressor technology in Russia and the CIS: 35 testing units, 300 patents, 310 specialist where 3 with doctor degrees and 10 with PhD
- 80% of KKM's innovative production is based on design documentation prepared by the institute
- Client base consists of Russian major companies, including Gazprom, Lukoil, Rosneft, Sibur, Nizhnekamskneftekhim, NLMK, etc.
- Annual revenue of the institute in 2012 was approx. Rub 290 mn

Main factors of revenue and profitability growth in compressors segment

1. Capability to secure large contracts for compressor-based integrated solutions

Current status:

- HMS has a strong track record with Russian majors
- Contracts signed in August 2012, right following the acquisition of KKM

2. Competences in project & design of a compressor-based integrated solution

- Technical solutions, more profitable for a producer
- Strong negotiation power towards suppliers

Current status:

- The compressor design center acquired recently

3. Competences in large flow control project management

Current status:

- ESPO, Vankor, Turkmenistan

All 3 factors, brought together, should lead to revenue and EBITDA growth in 2014

Cost analysis

Cost of sales

	2011	2012	chg, yoy
Cost of sales	**19,131**	**23,645**	+24%
% of revenue	69.6%	70.3%	
Supplies and raw materials	9,603	11,767	+23%
% of revenue	34.9%	35.0%	
Labour costs	4,045	5,727	+42%
% of revenue	14.7%	17.0%	
Cost of goods sold	2,714	2,222	-18%
% of revenue	9.9%	6.6%	
Other expenses	2,770	3,930	+42%
% of revenue	10.1%	11.7%	

Comments

Cost of sales grew 24% yoy, that is in line with Revenue

- Supplies and raw materials up 23% yoy, in line with revenue growth
- Labor costs grew by 42% yoy, mainly because of consolidation of acquired in 2012 companies
- Increase in expenses, related to construction subcontractors as well as depreciation and amortization, influenced other expenses, resulted in their growth

Distribution & transportation expenses

	2011	2012	chg, yoy
Distribution & transportation expenses	**1,070**	**1,241**	+16%
% of revenue	3.9%	3.7%	
Transportation expenses	469	419	-11%
% of revenue	1.7%	1.2%	
Labour costs	335	461	+38%
% of revenue	1.2%	1.4%	
Insurance	35	36	+2%
% of revenue	0.1%	0.1%	
Other expenses	231	325	+41%
% of revenue	0.8%	1.0%	

Distribution and transportation costs grew by 16% in line with revenue

- Distribution and transportation expenses hold less share in revenue, 3.7% vs. 3.9% in 2011
- The company decreased transportation expenses by 11% yoy thanks to better logistics

General & administrative expenses

	2011	2012	chg, yoy
General & administrative expenses	**2,525**	**3,977**	+58%
% of revenue	9.2%	11.8%	
Labour costs	1,616	2,619	+62%
% of revenue	5.9%	7.8%	
Depreciation & amortization	142	179	+26%
% of revenue	0.5%	0.5%	
Audit & consultancy services	133	140	+5%
% of revenue	0.5%	0.4%	
Other expenses	633	1,039	+64%
% of revenue	2.3%	3.1%	

G&A costs grew by 58% mainly due to:

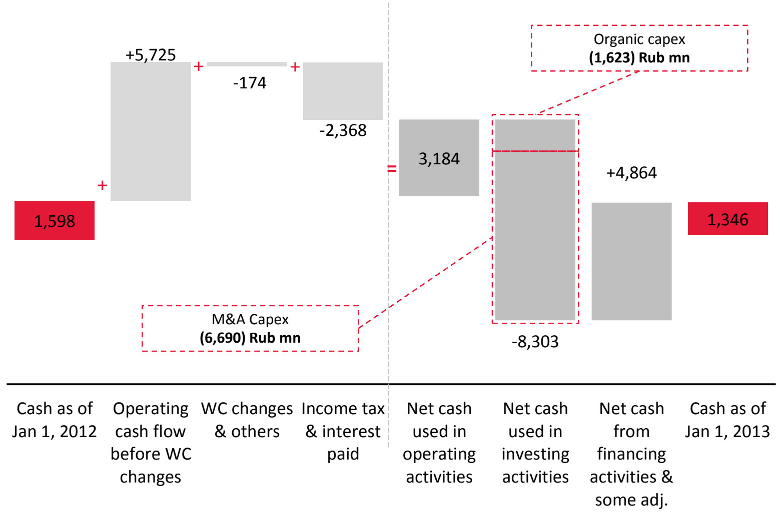
- Labour costs growth driven by:
  1. Rub 200 mn ESPO-linked bonuses paid to the staff related to the project execution (from key managers to sales, engineering and support personnel)
  2. Labor related expenses of companies acquired in 2012
  3. Planned increase of all personnel salaries
- New initiatives in the corporate development – IT-systems unification and export infrastructure development.

G&A costs growth must be assessed **together with order intake and backlog performance**, which not only hit record high, but also became more diversified

Source: Company data

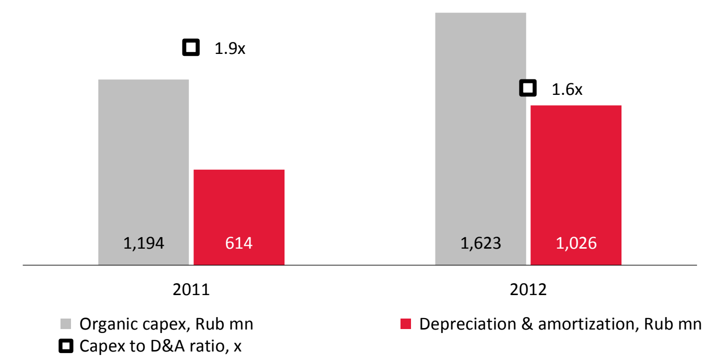
CAPEX & Working Capital as of 1 January 2013

Cash flow performance in 2012, Rub mn



Source: Company data

Capital expenditures[2] in 2012 vs. 2011

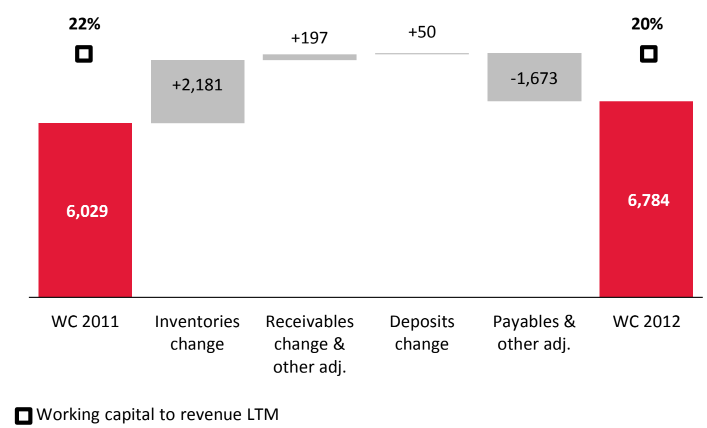


Source: Company data

Comments

- Operating cash flow before working capital changes increased to Rub 5.7 bn, compared to Rub 5.2 bn in 2011
- Working capital[1] amounted to 20% of total revenue, compared to 22% last year
- Net working capital decrease led to cash inflow from operating activities of Rub 3.2 bn, compared to net cash outflow of Rub 1.6 bn last year
- Organic capex increased to Rub 1.6 bn from Rub 1.2 bn last year, but Capex to D&A ratio decreased to 1.6x
- Payments for acquisitions of KKM and Apollo, net of cash acquired, totaled Rub 6.7 bn

Working capital as of 1 Jan 2013, Rub mn



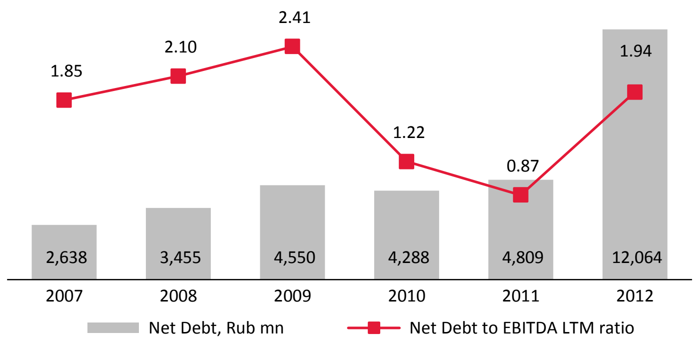
Source: Company data

[1] Working capital formals see slide 19

[2] Capital expenditures here equals Organic capex = Purchase of PPE + Purchase of intangible assets

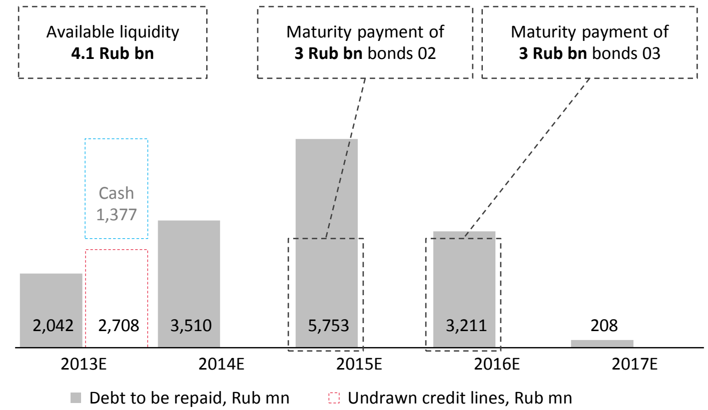
Financial position of HMS Group in 2012

Net debt to EBITDA ratio less than 2.00x



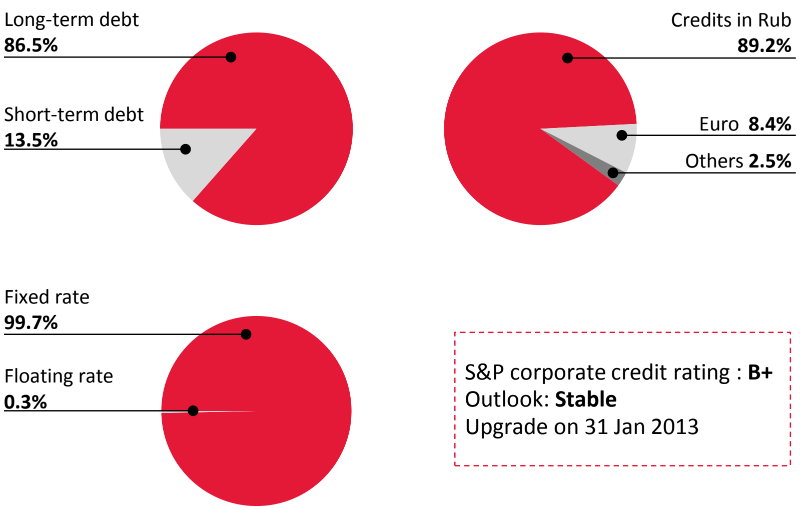
Source: Company data

Comfortable repayment schedule



Source: Company data as of 01 April, 2013

Currency and maturity risks are low



S&P corporate credit rating : **B+**
Outlook: **Stable**
Upgrade on 31 Jan 2013

Source: Company data as of 01 April, 2013

Comments

- Net debt grew by 151% yoy, mainly because of HMS' M&A activities. Also debt was used for working capital needs under execution of current projects
- Net Debt to EBITDA LTM ratio reached 1.94x, but this level is much lower than banks' covenants
- Company constantly works on its debt, that led to steady repayment schedule with negligible currency risk and prudent maturity structure
- Euro loan was raised to finance the acquisition of Apollo
- Successful 10.75% 3-year and 10.1% 5-year Ruble bonds placements, which are cheaper than proposed loans from main Russian banks
- Available liquidity of Rub 4.1 bn fully covers 2013E debt repayments
- 2012 Interest coverage ratio[1] equals 3.5
- 9.4% average interest rate, as of 1 April 2013
- In April 2013, Sberbank approved 3 unsecured revolving credit lines, where 2 of them refinance current Rub 2.5 bn credit lines, and 1 is a new Rub 0.7 bn line. HMS plans to sign credit contracts by June 2013

[1] EBIT / Interest expenses

Financial results

Business & Outlook

Appendix

Most of 2012 target contracts were signed or won

Priorities for 2012 (filled pink)

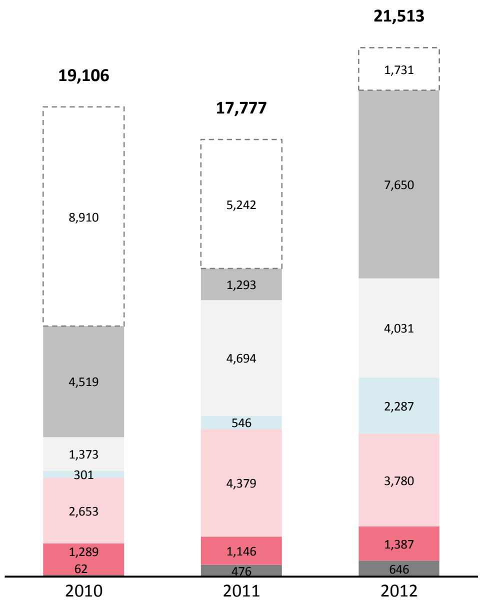
Project	Status	Brief description
Rosneft		
Vankor 2 stage	signed	Further development. Capex for 2011 US$ 2.6 bn
Yurubcheno-Tokhomsk oilfield		Start of oil production in 2016. Oil reserves & resources 513mt
Komsomolskoe, Priobskoe oilfields		Achievement of 95% level of associated gas utilization
Bashneft		
Trebs and Titov fields		JV with Lukoil. Project development stage. Reserves **141 mt.** Start of production is expected in 2013. Max capacity 6 mtpa
Transneft		
Tikhorestk-Tuapse-2 pipeline		Increase of the oil volume delivered to the Tuapse oil refining plant. Length of 247 km and capacity of **12 mtpa**. 2 OPSs to be reconstructed
ESPO expansion	signed	OPS to be constructed to deliver oil to Khabarovsk and Komsomolsk refineries
Zapolyarye – Pur-pe pipeline	postponed	Oil transportation from YANAO and Northern Krasnoyarsk region to ESPO pipeline
Yurubcheno-Takhomskoe-Taishet pipeline		Oil transportation from Yurubcheno-Tokhomsk and Kuyumbinsk oilfields to ESPO-1. Length ~703 km. Capacity **~15mtpa**
TNK-BP		
Russkoe oilfield		Giant oilfield in YANAO with specific oil. Project production **20 mtpa**
Samotlor		Further development of an active oilfield in Nizhnevartovsk
Uvat		21 oilfields in Tyumen region
East- and Novo- Urengoy gas & condensate fields	postponed	Planned production for 2011 is **3.2bcm**
Verkhnechonsk oilfield		Oilfield located in the Eastern Siberia, Irkutsk region. Development was stimulated by close proximity of the ESPO pipeline
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
Gazprom neft		
Priobskoe oilfield		Western Siberia. Recoverable reserves **~600 mt**
Kuyumbinskoe oilfield		50/50 w TNK-BP thru Slavneft. Reserves **C1 65 mt, C2 151 mt**
Sberbank Capital		
Dulisma oilfield	signed	Irkutsk region. Further development. 3rd resource base for ESPO
Taas-Yuriah oilfield	signed	Sakha region. Further development. Total reserves **~130 mt**
Refineries		Refineries located in Central and Privolzhskiy Federal district
Iraq		
Rumaila brownfield	signed	Consortium headed by BP
Az Zubair		Consortium headed by Eni
Water utilities		
Central Asia	signed	Irrigation stations for Uzbekistan and Turkmenia
Nuclear		
Rosatom	signed; partially postponed	Inflow of several contracts for delivery of pumps and pump equipment
CNEIC	signed	Pumps for 2 block of Chinese nuclear power plant (China Nuclear Energy Industry Corporation)

Sources: Public information, Company's data

Prioritized projects

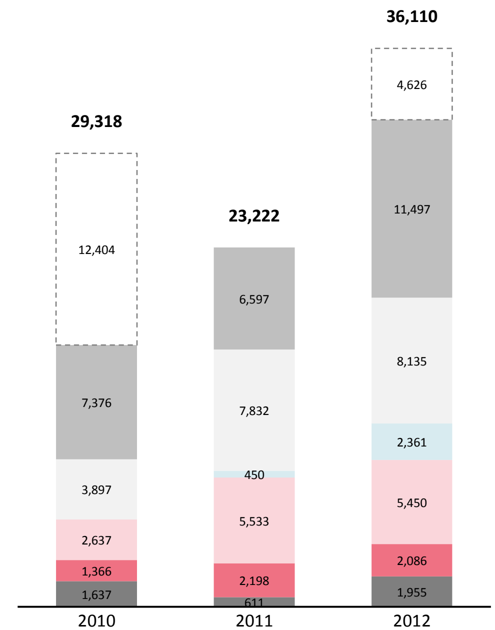
Backlog development: New Record High

Backlog dynamics in 2010-2012



	2010		2011		2012
ESPO pumps	8,910	-41%	5,242	-67%	1,731
Pumps excl ESPO	4,519	-71%	1,293	+491%	7,650
Oil & Gas equipment	1,373	+242%	4,694	-14%	4,031
Compressors	301	+81%	546	+319%	2,287
EPC: Construction	2,653	+65%	4,379	-14%	3,780
EPC: Project & Design	1,289	-11%	1,146	+21%	1,387
Others	62	+671%	476	+36%	646
Total	19,106	-7%	17,777	+21%	21,513
Total without ESPO	10,196	+23%	12,535	+58%	19,781
ESPO pumps: old	8,910	-41%	5,242	-99%	76
ESPO pumps: new				n/a	1,655

Order intake dynamics in 2010-2012



	2010		2011		2012
ESPO pumps	12,404	n/a		n/a	4,626
Pumps excl ESPO	7,376	-11%	6,597	+74%	11,497
Oil & Gas equipment	3,897	+101%	7,832	+4%	8,135
Compressors		n/a	450	+425%	2,361
EPC: Construction	2,637	+110%	5,533	-1%	5,450
EPC: Project & Design	1,366	61%	2,198	-5%	2,086
Others	1,637	-63%	611	+220%	1,955
Total	29,318	-21%	23,222	+56%	36,110
Total without ESPO	16,913	+37%	23,222	+36%	31,484
ESPO pumps: old	12,404	n/a			
ESPO pumps: new				n/a	4,626

Source: Company data, Management accounts

In Q1 2013, the Group added Rub 9.2 bn (vs. Rub 7.8 bn in Q1 2012, +17% yoy) of orders, mainly consisted of small and mid-size regular orders across different business segment

Selected end-market projects for mid-term

Our current priorities for 2013 (filled pink)

Project	Brief description
Rosneft	
Komsomolskiy refinery	Oil product pipeline from the refinery to De-Kastri harbor. Delivery of pumps and pump units
Yurubcheno-Tokhomsk oilfield	Start of oil production in 2016. Oil reserves & resources **513mt.** Delivery of pumps and oil&gas equipment
TNK-BP	
Russkoe, Tagulskoe and Suzunskoe oilfields	Oilfields in Yamal region with specific oil. Assets of TNK-BP. Can be developed using Vankor's infrastructure. Production start is planned in 2015-2016
Lodochnoe oil-gas condensate field	Discovered in Eastern Siberia in 1985. Recoverable oil reserves **C1 10.5mt**, **C2 32.6mt**. Next to Vankor. Production engineering in 2013
Uvat	22 oilfields in Tyumen region , including Protozanovskoe and Tyamkinskoe fields. Production **7mtpa** in 2012. Planned production **7.5mtpa** in 2015
East- and Novo- Urengoy gas & condensate fields	Rospan International project. Total reserves of 2 deposits **890bcm** of gas and **133mt** of gas condensate. Total development investments **US$ 6bn.** Current production **3.5bcm**. Planned production **8.6bcm** in 2015, and **16bcm** in 2017
Bashneft	
Trebs and Titov fields	JV with Lukoil. Project development stage. Reserves **C1 142mt.** Oil production in 2013
Transneft	
ESPO	Capacity expansion of ESPO-1 and ESPO-2
Zapolyarye – Pur-pe pipeline	Oil transportation from YANAO and Northern Krasnoyarsk region to ESPO pipeline
Modernization of the current pipelines	Ongoing inflow of contracts
Yurubcheno-Takhomskoe-Taishet pipeline	Oil transportation from Yurubcheno-Tokhomsk and Kuyumbinsk oilfields to ESPO-1. Length ~703 km. Capacity **~15mtpa**
Gazprom	
Kovyktinskoe gas field	Total reserves of gas **1.5trncm** and gas condensate **77mt**. Currently in exploration program development stage. By 2016 Gazprom plans to shoot 1,300m2 and drill 10 exploration wells
Chayandinskoe oil-gas condensate field	Base for creation of Yakutsk gas production center. Reserves of gas **1.2trncm** and oil & gas condensate **79mt**. Next to Kovyktinskoe field. Commencement planned in 2014 for oil and 2017 for gas. Field infrastructure development 2014-2017
Urengoy oil-gas condensate field	The 3rd world largest with gas reserves over **10trncm**, located in Tyumen region. Development of oil rims. Production plans in 2015
Mylzhinskoe OGF – Kazan OGCF – Kuybyshev trunk oil product pipeline	Pipeline construction in 2013-2014
South Stream (KMPO)	Gas pipeline, which is planned to be laid on the seafloor of the Black sea from Russia to Italy and Austria thru Bulgaria, Balkan Peninsula, and other countries. Construction started in Dec 2012, completion in 2015. Total investments €16bn
Gazprom neft	
Novoport (Novy port) field	Recoverable reserves C1+C2 **230mt** of oil and **270bcm** of gas. First oil in 2012. Start of year-round production in 2014 at **400-500ktpa**. Planned production **6-9mtpa** in 2020.
Etypurovskoe field	Further development of the field
Iraq	
Rumania brownfield	Consortium headed by BP
Projects with South Oil Company of Iraq	International oil majors
Water utilities	
Central Asia	Irrigation stations for Uzbekistan and Turkmenia
Russia & the CIS	Modernization of outdated equipment
Nuclear	
Rosatom	Pumps and other equipment for new nuclear power plants and modernization of the old ones

Sources: Public information, Company's data

Prioritized projects

Contacts

Investor Relations
Phone +7 (495) 730-66-01
ir@hms.ru
http://grouphms.com/shareholders_and_investors/
Twitter HMSGroup and HMSGroup_Rus

Sergey Klinkov, Head of Investor Relations
klinkov@hms.ru

Company address:
7 Chayanova Str.
Moscow 125047
Russia

HMS Hydraulic Machines & Systems Group Plc is listed on the London Stock Exchange (Main market, IOB):

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

Financial results

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Appendix

Consolidated statement of financial position FY 2012

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	6	14,415,505	8,225,805
Other intangible assets	7	685,866	497,871
Goodwill	8	5,335,785	2,359,726
Investments in associates	10	124,963	129,805
Deferred income tax assets	26	252,772	207,383
Other long-term receivables	14	155,234	62,873
Total non-current assets		**20,970,125**	**11,483,463**
Current assets:			
Inventories	12	6,858,605	4,677,514
Trade and other receivables and other financial assets	13	10,313,235	10,147,963
Current income tax receivable		126,782	33,556
Cash and cash equivalents	11	1,346,082	1,598,463
Restricted cash	11	56,385	25,313
		18,701,089	**16,482,809**
Non-current assets held for sale	15	47,850	49,402
Total current assets		**18,748,939**	**16,532,211**
TOTAL ASSETS		**39,719,064**	**28,015,674**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	24	48,329	48,329
Share premium	24	3,523,535	3,523,535
Treasury shares	24	(31,507)	-
Other reserves		(191,463)	122,852
Currency translation reserve		(347,264)	(228,760)
Retained earnings		6,704,590	6,116,729
Equity attributable to the shareholders of the Company		**9,706,220**	**9,582,685**
Non-controlling interest		**3,826,729**	**2,477,177**
TOTAL EQUITY		**13,532,949**	**12,059,862**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	11,219,833	4,433,984
Finance lease liability	17	10,072	-
Deferred income tax liability	26	1,866,684	1,091,372
Pension liability	18	447,484	334,267
Provisions for liabilities and charges	23	46,663	31,352
Other long-term payables	22	325,835	20,971
Total non-current liabilities		**13,916,571**	**5,911,946**
Current liabilities:			
Trade and other payables	20	8,795,207	6,937,737
Short-term borrowings	16	2,190,520	1,973,886
Provisions for liabilities and charges	23	299,407	161,524
Finance lease liability	17	7,568	9
Pension liability	18	51,385	32,333
Current income tax payable		26,349	293,640
Other taxes payable	21	899,108	644,737
Total current liabilities		**12,269,544**	**10,043,866**
TOTAL LIABILITIES		**26,186,115**	**15,955,812**
TOTAL EQUITY AND LIABILITIES		**39,719,064**	**28,015,674**

Consolidated statement of income FY 2012

	Note	2012	2011
Revenue	27	33,655,644	27,495,553
Cost of sales	28	(23,645,228)	(19,131,496)
Gross profit		**10,010,416**	**8,364,057**
Distribution and transportation expenses	29	(1,240,649)	(1,070,407)
General and administrative expenses	30	(3,976,804)	(2,524,655)
Other operating expenses, net	31	(555,872)	(297,843)
Excess of fair value of net assets acquired over the cost of acquisition	9	-	21,304
Gain on revaluation of investment in associate upon acquisition of controlling share	9, 10	-	54,948
Operating profit		**4,237,091**	**4,547,404**
Finance income	32	83,263	120,131
Finance costs	33	(1,246,382)	(493,909)
Share of results of associates	10	443	93,341
Profit before income tax		**3,074,415**	**4,266,967**
Income tax expense	26	(772,920)	(890,434)
Profit for the year		**2,301,495**	**3,376,533**
Profit attributable to:			
Shareholders of the Company		2,094,951	3,224,719
Non-controlling interest		206,544	151,814
Profit for the year		**2,301,495**	**3,376,533**
Currency translation differences		(129,227)	(25,251)
Currency translation differences of associates	10	(5,285)	5,092
Other comprehensive loss for the year		**(134,512)**	**(20,159)**
Total comprehensive income for the year		**2,166,983**	**3,356,374**
Total comprehensive income attributable to:			
Shareholders of the Company		1,976,447	3,230,744
Non-controlling interest		190,536	125,630
Total comprehensive income for the year		**2,166,983**	**3,356,374**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	**24**	**17.89**	**27.88**

Consolidated statement of cash flows FY 2012

	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		3,074,415	4,266,967
Adjustments for:			
Depreciation and amortisation	6, 7	1,026,295	614,398
Loss from disposal of property, plant and equipment and intangible assets	31	29,182	8,432
Finance income	32	(83,263)	(120,131)
Finance costs	33	1,246,382	493,909
Pension expenses	18	106,549	27,555
Warranty provision	28	13,617	31,855
Write-off of receivables		12,073	2,236
Provision for impairment of accounts receivable	30	65,620	(23,012)
Impairment of taxes receivable	31	11,741	-
Provision for obsolete inventories	28	111,093	28,354
Provision for VAT receivable	30	3,178	(9,185)
Provisions for legal claims	31	112,262	(21,852)
Excess of fair value of net assets acquired over the cost of acquisition	9	-	(21,304)
Foreign exchange (income)/loss, net	31	(11,303)	45,291
Gain on revaluation of investment in associate upon acquisition of controlling share	9, 10	-	(54,948)
Net monetary effect on non-operating items		10,777	10,371
Provision for tax risks	30	(2,882)	-
Share of results of associates	10	(443)	(93,341)
Operating cash flows before working capital changes		**5,725,293**	**5,185,595**
Increase in inventories		(1,538,658)	(1,330,185)
Decrease in trade and other receivables		204,064	1,007,012
Increase/(decrease) in taxes payable		208,211	(518,016)
Increase/(decrease) in accounts payable and accrued liabilities		983,644	(4,772,053)
Restricted cash		(31,072)	(20,335)
Cash from/(used in) operations		**5,551,482**	**(447,982)**
Income tax paid		(1,296,273)	(653,314)
Interest paid		(1,071,294)	(493,899)
Net cash from/(used in) operating activities		**3,183,915**	**(1,595,195)**
Cash flows from investing activities			
Repayment of loans advanced		27,866	4,174
Loans advanced		(32,784)	(3,317)
Proceeds from sale of property, plant and equipment and intangible assets		13,248	14,473
Interest received		17	20,124
Dividends received		976	14,670
Purchase of property, plant and equipment		(1,548,160)	(1,139,198)
Acquisition of intangible assets		(74,616)	(55,080)
Acquisitions of subsidiaries, net of cash acquired	9, 10	(6,689,967)	(1,049,184)
Net cash used in investing activities		**(8,303,420)**	**(2,193,338)**
Cash flows from financing activities			
Repayments of borrowings		(15,750,153)	(10,905,256)
Proceeds from borrowings		22,200,957	12,616,367
Payment for finance lease		(2,960)	(8,457)
Acquisition of non-controlling interest in subsidiaries	9	(445)	-
Proceeds from share issue		-	3,517,161
Expenses related to share issue		-	(153,636)
Buy back of issued shares	24	(31,507)	-
Dividends paid to the shareholders of the Company	24	(1,499,692)	-
Dividends paid to non-controlling shareholders of subsidiaries		(51,856)	(16,513)
Net cash from financing activities		**4,864,344**	**5,049,666**
Net (decrease)/increase in cash and cash equivalents		**(255,161)**	**1,261,133**
Inflation effect on cash		**(277)**	**(10,770)**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**3,057**	**(2,986)**
Cash and cash equivalents at the beginning of the year		**1,598,463**	**351,086**
Cash and cash equivalents at the end of the year		**1,346,082**	**1,598,463**

Calculations and formulas

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** minus **Other operating expenses**
- **Total debt** is calculated as **Long-term borrowings** plus **Short-term borrowings**
- **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**, excluding **Short-term loans issued**, **Bank deposits** and **Promissory notes receivable**, plus **Current income tax receivable** minus **Trade and other payables** minus **Short-term provisions for liabilities and charges** minus **Current income tax payable** minus **Other taxes payable**. In 2011, Working capital was adjusted for working capital of acquired DGHM (Rub 309 mn)
- **ROCE** is calculated as **EBIT LTM** divided by **Average Capital Employed** (**Total debt + Total equity**)
- **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

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