OPERATING PERFOMANCE

FINANCIAL SUMMARY

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

OPERATING PERFORMANCE

Backlog and order intake

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

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

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

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

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

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

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

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

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

GROUP PERFORMANCE

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

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

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

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

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

4 Under management accounts

OPERATING PERFOMANCE

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

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

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

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

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

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

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

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

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

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

Impairment of goodwill in 2014

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

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

SEGMENT PERFORMANCE

Industrial pumps business segment

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

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

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

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

OPERATING PERFOMANCE

Oil & Gas equipment Business Segment

The oil & gas equipment business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.

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

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

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

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

Compressors business segment

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

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

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

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

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

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

Engineering, procurement and construction (EPC) business segment

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

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

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

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

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

FINANCIAL PERFOMANCE

CASH FLOW PERFORMANCE

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

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

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

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

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

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

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

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

DEBT AND LIQUIDITY POSITION

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

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

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

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

FINANCIAL MANAGEMENT

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

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

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

HMS KEY PROJECTS

PROJECTS ON TRACK

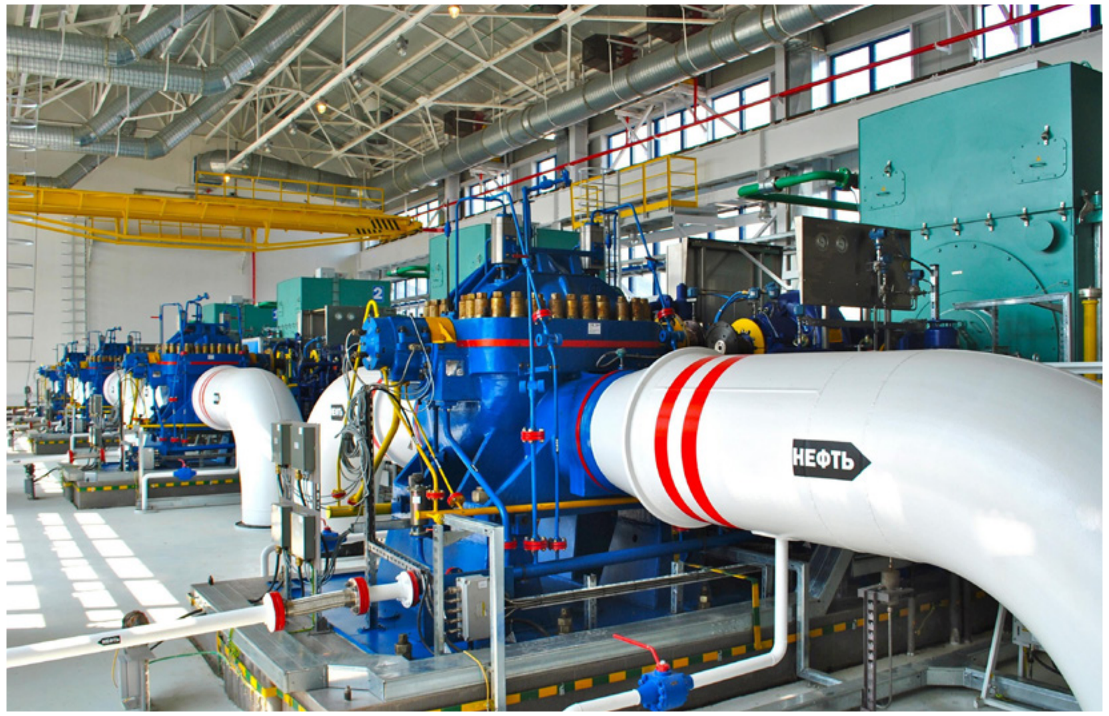
In December 2013, the company signed 5.7 billion rubles in contract to supply an integrated solution for a major Siberian gas field. According to the contract, HMS will design, manufacture, deliver, supervise and test the complex technological facility, including compressors, pumps, tanks and vessels,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

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

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

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

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

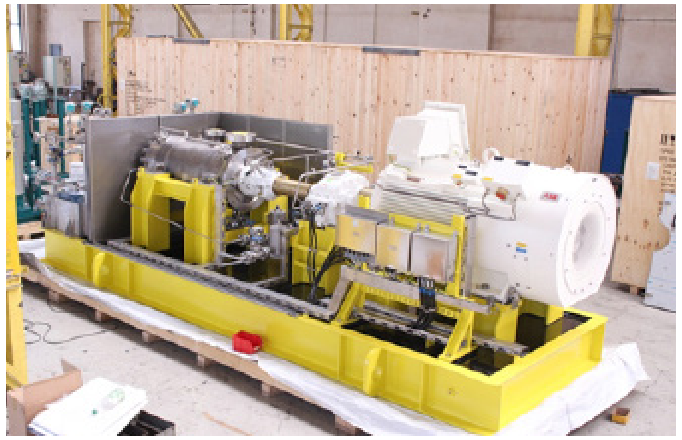


NEW PROJECTS

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

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

RESEARCH AND DEVELOPMENT



BB5 pump for offshore applications delivered to the Permas Field

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

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

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

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

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

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

Multiphase metrological test flow facility

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

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

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

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

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

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

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

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

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

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

SOCIAL RESPONSIBILITY

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

PEOPLE AND THEIR WORKPLACE

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

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

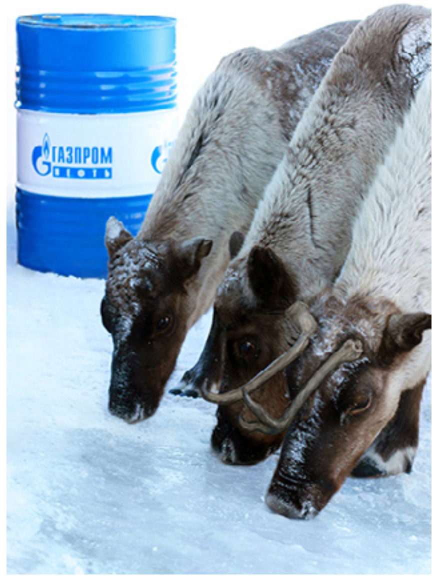
HMS Group improves its health and safety standards on a regular basis. Several courses and trainings on behavioral safety, fire and environment were held at all the production sites and zero accident frequency rates were reported at each of the subsidiaries that make up HMS Group.

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

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

Average headcount as of December 31, 2014

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



ENVIRONMENTAL INITIATIVES

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

CHARITY

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

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

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

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

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