

Chairmen's Statement



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German Tsoy
Chairman of the Board
of Directors

Dear Stakeholders,

In 2013, we celebrate our 20th anniversary. During these 20 years we have experienced various periods of Russian economy development, working our way through all the challenges we faced and taking advantage of the most amazing opportunities that presented in the emerging market. Having transformed the Group from a trading company focused on pump-based solutions into one of the largest manufacturing holdings in Russia, providing services for the oil and gas industry, energy and water utility sectors, we look forward with confidence to the years ahead.

In 2012, sluggish growth in the U.S. economy as well as Europe balancing on the edge of recession and slowing growth in China definitely affected growth in Russia. This was especially visible in the second half of 2012 when we observed GDP growth deceleration to 3.4% year-on-year. Nevertheless, we managed not only to demonstrate a solid double-digit revenue growth of 22%, but also broke the barrier of US\$1bn for the first time, with EBITDA hitting a record high of Rub 6,179 million. This again justified the strategy chosen by our team, which focuses on close cooperation and integration of research and design resources and production facilities. Now I can say with confidence that we have emerged from the crisis period as an even stronger and better company than we were before, and a company with a leading position in the Russian market.

We made good progress in 2012, successfully meeting both our financial and strategic targets across all business segments. Thanks to great opportunities that emerged on our target markets and efficient company management, we participated in the most meaningful and material projects in the oil and gas industry, thermal and nuclear energy, and water utility sectors. Our focus on customers' needs and the quality of our services allowed us to secure new contracts and participate in the follow-on stages of such important projects as the Vankor oilfield development and expansion of the first part of the East-Siberia Pacific Ocean pipeline. On top of this, we added into our order backlog a number of interesting new projects in the engineering, nuclear energy and water industries, both in Russia and overseas.

Among important events of the last year I would like to mention new M&As. Having added Kazankompressormash (KKM) into the Group's portfolio, we strengthened the range of solutions we can offer to our existing customers and tapped into the promising new market of gas projects. We need time and effort to transform KKM into a fully-fledged member of the HMS Group but even now we clearly see tremendous potential for the enterprise and strong prospects in the compressor market. This gave us confidence to accept this responsibility and to set ambitious targets and goals for KKM's development. Given the expertise we have accumulated through 21 successfully completed acquisitions, both in Russia and abroad, I believe we'll manage to complete the transformational period within a very tight deadline.

The acquisition of Apollo Goessnitz (Apollo), another production facility acquired in 2012, has at least equal importance, though the size of Apollo's business is relatively small compared to the Group's scale of business. Apollo helps us to gain a very strong level of engineering expertise and a product portfolio of specialized pumps for those target markets in Russia where we had a limited presence — oil refineries and petrochemicals, as well as offshore oil production. In addition, we're going to deploy the distribution network of Apollo to offer HMS pumps to international engineering projects.

We achieved solid results in 2012, but I don't expect 2013 will be an easy year for us. The main factor we should take into consideration is the schedule of customer tenders for new large infrastructure projects, which we consider as priorities for our development. According to our forecasts, most of these will be held in the second half of 2013. That means we'll be facing the need to increase our revenue in 2013 mainly through the delivery of standard equipment and flow control solutions.

Given the current circumstances and our expectations on customers' project cycles, we have set clear and transparent goals for 2013: to demonstrate growth outstripping the inflation rate and to build up a backlog of large complex orders for 2014 in every business segment of the Group.

The expertise of our team of employees will be the main factor in our future success. This is a particular reason why we intensively invest in human resources and also why, in 2012, we've been nominated again as "Attractive Employer of the Year". I believe we have created an "entrepreneurial" atmosphere in our business that is based on trust and respect among our sales team, while the young engineers we recruit from leading Russian technical universities not

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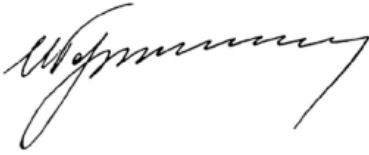
only enjoy comfortable work conditions but also the scope for personal development and training opportunities.

We are strongly committed to the principles of corporate governance, declared during the Initial Public Offering of the Group on the London Stock Exchange in 2011. Out of 9 Directors on the Board, we have 4 non-executive and 2 independent Directors. This creates a balanced decision-making system for strategic aspects of the business, aligned to a target of sustainable growth. I would like to thank all Board Members for the job they have done in 2012.

Certainly, we would not be able to achieve such great results without the well-organized and professional work of our management team, production and engineering employees, sales and marketing people and IT specialists, both within the management company and at the production facilities of the Group. Our 20th anniversary is a great chance to say "thank you" for their motivation, ingenuity and dedication to our values, and I would like to take this opportunity to express my gratitude to all of them.

Almost one-third of the HMS Group share capital belongs to international institutional investors. We are fortunate to meet and hear from them regularly, and to gain expertise from our minority shareholders. I think last year many of them saw evidence that their support and feedback are both appreciated and continue to shape our thinking. Unfortunately, the share price performance doesn't accurately reflect, in our view, the fundamentals of the business development and prospects. However, we'd like to thank our investors for their commitment to the Group's investment case and partially return their investments through dividends. I'm pleased to inform you that taking into consideration our strong positive cash-flow in 2012, we made a decision to pay out dividends of Rub 800 mn.

**Your faithfully,
German Tsoy**

A handwritten signature in black ink, appearing to read 'German Tsoy', with a stylized, flowing script.