

Financial Review

Cash flow generated from operations before changes in working capital increased to RUB 5,681 million, compared to RUB 5,186 million. Despite material growth of interest expenses, net operating cash flow was positive and amounted to RUB 3,060 million versus net cash outflow from operating activities of RUB (1,595) million in 2011.

Net cash used for investing activities totaled RUB 8,236 in 2012, compared to 2,193 million in 2011. The Group spent RUB 1,476 million in 2012 for capital expenditures, compared to RUB 1,139 million in 2011. Payments for acquisitions of KKM and Apollo Goessnitz, completed in 2012 and final payment for DGHM, acquired in 2011, net of cash acquired totaled RUB 6,690 million.

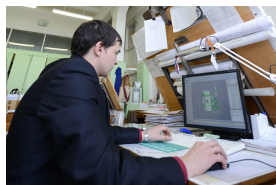
Dividend payment for the FY 2011 results, effected in the second quarter of 2012, amounted to Rub 1,500 million. The Group is committed to pay dividends in the future with payout ratio not less than 25% of profit for the year.

Thus, the Group's free cash outflow amounted to RUB (283) million.

Total debt grew by 109% year-on-year to RUB 13,410 million in the reporting period, compared to RUB 6,408 million in 2011 mainly driven by M&A activities of the Group. Apart of the acquisitions, the debt expansion was used for working capital needs under the execution of the current projects. By the end of the year 86% of total debt was represented by long-term credit facilities with maturity of more than 1 year.

The net debt to EBITDA (taken for the last 12 months) ratio amounted to 1.95, much lower than banks' and internal covenants. As a result, the Group created a room for possible additional fund raising for business development and expansion. The Group's cash balances stood at RUB 1,346 million by the end of 2012, compared to RUB 1,598 million by the end of the last year. Ability of the Group to meet its debt obligation remained comfortable with the interest coverage ratio of 3.4.

As of 31.12.2012, the Group's net working capital was within the targeted range of 20-25% and amounted to 20.6% of total revenue taken for the last 12 months, compared to 24.8% in 2011.



M&A Activity

In the third quarter of 2012 the Group successfully completed two acquisitions. In July 2012, HMS acquired 74.35% of a share capital of Kazankompressormash, a leading compressor producer in Russia, for Rub 5,524 million funded from available debt facilities of the Group. Later in August 2012, HMS completed the acquisition of 75% of a share capital of Apollo Goessnitz, German manufacturer of specialized pumps for power, oil refineries and off-shore application, for EUR 25 million.