

## BUSINESS MODEL

Customer focus is the leading principal for HMS Group. All our businesses — from product development to after-sales services — are tailored to solve our customers' challenges. The deep understanding of our customers and markets, the ability to engineer products to meet customers' specific needs and our strong expertise in manufacturing helps us secure further mutually beneficial partnerships.



### Research & development

Continuous research and development plays an essential role in the sustained success of HMS Group. We view R&D as the cornerstone for achieving technological leadership in the markets where we operate. Turning the technical requirements of our customers into innovative engineered products strengthens our competitive position and helps to increase our commercial success.

HMS operates a wide corporate R&D network. It includes: 5 leading R&D centers in Russia and the CIS; 3 leading project and design institutes dedicated to strengthening our core competencies in oilfield design (GTNG), water facilities (RVKP) and compressor equipment (NIITK); and one foreign innovative technology center -complying with off-shore and oil refinery API standards (Apollo). The Group coordinates the whole innovation cycle through its management company headquartered in Moscow.

Our research and development activities are directed primarily at improving existing products and services, the design of products to meet specific customer needs and the development of new products, solutions and services.

Our highly-qualified and experienced R&D team, combined with leading computer technologies enable us to create reliable, energy-effective, efficient pumping equipment, which conforms to the requirements of Russian and foreign customers within tight schedules.



## **Manufacturing**

Manufacturing is the core activity of HMS Group. We have built our leading industrial group through the consistent acquisition of the best producers of pumps, compressors and oil and gas equipment in Russia and the CIS. Currently 16 plants operate under the HMS brand, most of which are considered flagship enterprises in their regions.

We continuously update our production facilities and technological processes to offer a modern and competitive equipment for our clients. In our manufacturing process we primarily focus on the energy efficiency, robustness, reliability and cost of our products.

HMS Group manufactures both standard and customised equipment. We purposely target the manufacturing of high-margin products tailored for specific customer needs and based on our in-house R&D design, which leads our planned future sales growth. Our commitment to high quality, our solid track record and our strong expertise make HMS the partner of choice for participating in complex and challenging projects in the oil and gas, power and water markets.



### Marketing and sales

In the majority of cases, the Group is awarded contracts following participation in tenders. The Group builds and maintains customer relationships at the board level, senior manager level and local level. The negotiation of large-scale projects typically involves the Group's directors, senior managers, senior R&D personnel and technical specialists and their counterparts in the customer's head office. R&D personnel support the sales process by providing input at each stage.

Customised and modular equipment is sold directly to customers. Contract terms vary depending on a number of factors, including, among others, the industry in question, the size of the order and the types of pumps ordered.

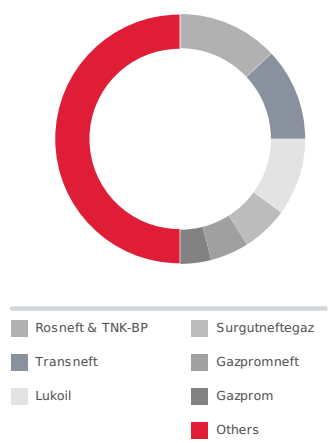
Standard pumps are sold mainly through an extensive trading network of dealers and distributors accounting for over 100 partner companies across Russia. The central sales office, Hydromashservice, is located in Moscow. There are also 11 branches and representatives offices in Russia and CIS and 3 outside of the CIS — in Milan, Dubai and Baghdad.

Equipment sales are made by professionals with a strong practical knowledge and the ambition to offer the best solution for the customer's specific application.

We have a well-diversified client base of around 6,000 names. A significant portion of the Group's revenue comes from "Blue-chip" clients, which include the largest oil and gas and energy companies in Russia. A stable revenue growth comes from small-to-medium-sized clients with annual purchases below Rub 200 million.

The improvement of our sales process and the further extension of an effective distribution system are the priorities for HMS Group.

Revenue split by clients in 2013, %







### **After-sales services**

When customers enter into a partnership with HMS Group, their experience is not just limited to the delivery of industrial equipment. We also provide a wide range of after-sales services, which include:

- energy audit and energy efficiency optimization of pumping systems;
- warranty and post-warranty maintenance;
- supply of spare parts, equipment repair and upgrade;
- consulting and training.

We run over 20 service centers in Russia and the CIS. HMS Group is seeking to extend this network of service centers.

In addition to carrying out energy efficiency optimisation of pumping systems and audit, our team of designers selects tailored pumps for every type of hydro technical system and provides the necessary consulting to customers to highlight possible reasons for and to eliminate ineffective pump operations.

HMS Group provides further training programmes and technical consulting services for the client's operating personnel to enable the correct, failure-free and energy-efficient use of supplied equipment and to increase the professional qualifications of personnel.

We are currently developing a programme to expand our maintenance services to cover all types of supplied equipment.

HMS Group is anticipating a growing demand for after-market services in the oil and gas sector of Russia and the CIS in the long term in line with global industry trends.

