

HMS Group OJSC
(previously operating as Investment and
Industrial Group Hydraulic Machines and Systems LLC)

International Accounting Standard No. 34
Consolidated Condensed Interim Financial Information (unaudited)

30 September 2008

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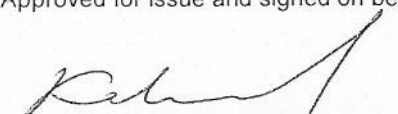
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HMS GROUP OJSC

Consolidated Condensed Interim Balance Sheet as of 30 September 2008 (unaudited) and 31 December 2007
(in thousands of Russian Roubles, unless otherwise stated)

	Note	30 September 2008	31 December 2007
ASSETS			
Non-current assets:			
Property, plant and equipment	4	3,592,743	2,867,035
Intangible assets	5	29,968	46,589
Goodwill	6	211,848	207,329
Investments in associates	8	479,458	416,860
Deferred tax assets		38,916	57,711
Other long-term receivables		7,554	50,911
Other non-current assets		16,036	-
Total non-current assets		4,376,523	3,646,435
Current assets:			
Inventories	10	2,751,575	1,852,958
Trade and other receivables		3,981,417	3,921,330
Cash and cash equivalents	9	340,227	377,203
Restricted cash	9	1,783	890
Total current assets		7,075,002	6,152,381
TOTAL ASSETS		11,451,525	9,798,816
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14	591,180	218,080
Currency translation reserve		(28,341)	(34,824)
Retained earnings		1,871,182	1,573,306
Equity attributable to the Company's equity holders		2,434,021	1,756,562
Minority interest		434,678	567,953
Total equity		2,868,699	2,324,515
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	11	224,310	52,631
Finance lease liability		25,314	41,388
Deferred tax liability		197,728	237,553
Pension liability	12	151,614	118,276
Other provisions for liabilities and charges		27,882	29,594
Total non-current liabilities		626,848	479,442
Current liabilities:			
Trade and other payable		4,215,421	3,856,253
Short-term borrowings	11	3,414,487	2,898,852
Finance lease liability		21,381	22,816
Pension liability	12	4,844	11,676
Current income tax payable		29,654	23,593
Other taxes payable		266,454	181,669
Other provisions		3,737	-
Total current liabilities		7,955,978	6,994,859
TOTAL EQUITY AND LIABILITIES		11,451,525	9,798,816
ASSETS			
Non-current assets:			

Approved for issue and signed on behalf of the Board of Directors on 09 February 2009.


K.V. Molchanov
Vice-president
HMS Group OJSC


M.Y. Kuzmenko
Finance Director
HMS Group OJSC

The accompanying notes on pages 6 to 24 are an integral part of this consolidated condensed interim financial information.

HMS GROUP OJSC**Consolidated Condensed Interim Income Statement for nine months ended 30 September 2008 (unaudited)**
(in thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2008
Revenue	16	11,215,080
Cost of sales	17	(8,552,120)
Gross profit		2,662,960
Distribution and transportation expenses	18	(338,743)
General and administrative expenses	19	(1,279,807)
Other operating expenses – net	20	(90,622)
Operating profit		953,788
Finance income	21	21,925
Finance costs	22	(285,580)
Share of results of associates	8	21,827
Profit before income tax		711,960
Income tax charge	15	(185,970)
Profit after tax		525,990
Other changes in equity	14	(55,157)
Increase in net equity		470,832
Increase in equity attributable to:		
Participants of the Company		304,359
Minority interest		166,473
Increase in net assets		470,832

The accompanying notes on pages 6 to 24 are an integral part of this consolidated condensed interim financial information.

HMS GROUP OJSC**Consolidated Condensed Interim Statement of Cash Flows for nine months ended 30 September 2008****(unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

	Note	Nine months ended 30 September 2008
Cash flows from operating activities		
Profit before income tax		711,959
Adjustments for:		
Depreciation and amortization	4,5	238,133
Loss on disposal of property, plant and equipment and intangible assets		17,697
Interest income		(18,006)
Interest expense	22	280,834
Pension expenses	12	32,163
Provision for warranty		13,187
Provision for impairment of accounts receivable		85,596
Provision for obsolete inventories		12,996
Provision for tax risks		(1,170)
Foreign exchange loss	22	4,746
Share of result of associates	8	(21,827)
Operating cash flows before working capital changes		1,356,308
Increase in inventories		(910,252)
Decrease in trade receivables		477,396
Increase in taxes and levies payable		90,263
Decrease in accounts payable and accrued liabilities		(316,689)
Restricted cash	9	(893)
Cash generated from operations		696,133
Income tax paid		(288,368)
Interest paid		(291,359)
Net cash from operating activities		116,406
Cash flows from investing activities:		
Repayment of loans advanced		172,241
Loans advanced		(198,266)
Proceeds from the sale of property, plant and equipment		4,778
Interest received		6,195
Acquisition of intangible assets		(6,200)
Prepayments for business combinations		(203,286)
Acquisition of property, plant and equipment		(506,912)
Acquisition of associates	8	(50,605)
Acquisitions of subsidiaries, net of cash acquired	7	(9,690)
Net cash used in investing activities		(791,745)
Cash flows from financing activities:		
Repayment of borrowings		(6,551,817)
Proceeds from borrowings		7,182,959
Payment for finance lease		(10,291)
Capital contribution	14	23,548
Acquisition of minority interest in subsidiaries	7	(6,036)
Net cash from financing activities		638,363
Net increase in cash and cash equivalents		(36,976)
Cash and cash equivalents at the beginning of the period, net of restricted cash of RR 890	9	377,203
Cash and cash equivalents at the end of the period, net of restricted cash of RR 1,783	9	340,227

The accompanying notes on pages 6 to 24 are an integral part of this consolidated condensed interim financial information.

HMS GROUP OJSC**Consolidated Condensed Interim Statement of Changes in Equity for nine months ended 30 September 2008****(unaudited)***(in thousands of Russian Roubles, unless otherwise stated)*

	Attributable to the Company's equity holders				Minority interest	Total equity	
	Note	Share capital	Cumulative currency translation reserve	Retained earnings			Total
Balance as of 1 January 2008		218,080	(34,824)	1,573,306	1,756,562	567,953	2,324,515
Profit after tax		-		359,517	359,517	166,473	525,990
Other changes in equity:							
- Change in cumulative currency translation reserve		-	6,483	-	6,483	-	6,483
- Additional contribution		373,100	-	(63,869)	309,231	-	309,231
- Dividends paid		-	-	(236,498)	(236,498)	(56,322)	(292,820)
- Acquisition of additional interest in subsidiaries		-		238,726	238,726	(243,426)	(4,700)
Balance as of 30 September 2008		591,180	(28,341)	1,871,182	2,434,021	434,678	2,868,699

The accompanying notes on pages 6 to 24 are an integral part of this consolidated condensed interim financial information.

HMS GROUP OJSC

Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

1. The Group and its Operations

This condensed consolidated interim financial information has been prepared in accordance with International Financial Reporting Standards as at and for the nine months period ended 30 September 2008 for HMS Group OJSC (formerly operating as Investment and Industrial Group Hydraulic Machines and Systems LLC; the "Company") and its subsidiaries ("the Group"). The Group's principal business activities are manufacturing of a wide range of pumps and pumping units, manufacturing and repairing of oil and gas equipment, engineering and construction services mainly for oil and gas companies. These products and services are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is Olkhovskaya St. 45, bld. 1, office 4, 105066 Moscow. The Group's manufacturing facilities are primarily located in Orel, Vladimir, Tomsk and Tumen regions of the Russian Federation and Sumy in Ukraine.

2. Basis of Preparation

Basis of preparation. This condensed consolidated interim financial information for the nine months ended 30 September 2008 has been prepared in accordance with IAS 34, *Interim financial reporting*. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2007.

3. Accounting Policies

Accounting policies. The accounting policies applied are consistent with those of the annual consolidated financial statements for the ended 31 December 2007, as described in those annual consolidated financial statements.

Certain reclassifications have been made to prior year balances in the consolidated condensed interim balance sheet, cash flows and notes to conform to the current period presentation.

Standards and amendments early adopted by the Group. IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009) was early adopted in 2007. IFRS 8 replaces IAS 14, *Segment reporting*, and aligns segment reporting with the requirements of the US standard SFAS 131, *Disclosure about segments of and enterprise and related information*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The following new standards, amendments to standards, interpretations are mandatory for the first time for the financial year beginning 1 January 2008, but are not currently relevant for the Group:

- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted.

Puttable financial instruments and obligations arising on liquidation – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IAS 23, *Borrowing Costs* (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1, *Presentation of Financial Statements* (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in net assets attributable to participants, such as the revaluation of available-for-sale financial assets. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

HMS GROUP OJSC

Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

3. Accounting Policies (continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not relevant to the Group.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have an impact on the Group's consolidated financial statements.

Reclassification of Financial Assets (Amendments to IAS 39 Financial Assets: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to the standard permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances. The amendment also permits the entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has an intention and ability to hold that financial asset for the foreseeable future. The amendments will not have an impact on the Group's consolidated financial statements.

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***3. Accounting Policies (continued)**

New interpretations. The Group has not early adopted the following new interpretations:

- IFRIC 15, Agreements for construction of real estates (effective from 1 January 2009);
- IFRIC 16, Hedges of a net investment in a foreign operation (effective from 1 October 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

4. Property, Plant and Equipment

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2008	118,460	1,593,816	1,170,499	142,415	153,101	175,168	3,353,459
Accumulated depreciation	-	(95,934)	(291,181)	(46,595)	(52,714)	-	(486,424)
Carrying amount at 1 January 2008	118,460	1,497,882	879,318	95,820	100,387	175,168	2,867,035
Additions through contribution to charter capital (note 14)		371,733	45,928	-	576	21,661	439,898
Additions	857	50,970	247,927	23,446	20,938	232,371	576,509
Transfers	-	4,632	18,873	2,838	836	(27,179)	-
Disposals		(2,371)	(4,317)	(2,276)	(2,026)	(69,148)	(80,138)
Depreciation for the period	-	(41,777)	(128,386)	(21,310)	(19,088)	-	(210,561)
Carrying amount at 30 September 2008	119,317	1,881,069	1,059,343	98,518	101,623	332,873	3,592,743
Cost at 30 September 2008	119,317	2,018,528	1,473,857	161,380	169,912	332,873	4,275,867
Accumulated depreciation	-	(137,459)	(414,514)	(62,862)	(68,289)	-	(683,124)
Carrying amount at 30 September 2008	119,317	1,881,069	1,059,343	98,518	101,623	332,873	3,592,743

As of 30 September 2008, the Group's property, plant and equipment for a total of RR 164,738 had been pledged as security for loan (31 December 2007: RR 192,522) (Note 11).

The Group leases plant and equipment under a finance lease arrangements. As of 30 September 2008, the gross book value of the leased equipment was RR 100,357, accumulated depreciation was RR 18,541 (31 December 2007: RR 102,537 and RR 9,557 respectively).

Construction-in-progress includes advances for capital expenditures for a total of RR 159,784 as of 30 September 2008 (31 December 2007: RR 68,008).

HMS GROUP OJSC

Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

5. Other Intangible Assets

	Patents	Licensed technology	Acquired software license	Customer relationships	Websites	Total
Cost at 1 January 2008	7,405	9,282	13,587	52,980	26	83,280
Accumulated amortization and impairment	(3,598)	(3,084)	(3,514)	(26,490)	(5)	(36,691)
Carrying amount at 1 January 2008	3,807	6,198	10,073	26,490	21	46,589
Acquisitions through business combinations (Note 7)	-	1	10	4,892	-	4,903
Additions	391	3,964	4,512	-	-	8,867
Disposals	(1,208)	276	(1,886)	-	-	(2,818)
Amortization for the year	(1,968)	(2,447)	(2,063)	(21,091)	(4)	(27,573)
Carrying amount at 30 September 2008	1,022	7,992	10,646	10,291	17	29,968
Cost at 30 September 2008	2,353	12,415	15,448	57,872	26	88,114
Accumulated amortization and impairment	(1,331)	(4,423)	(4,802)	(47,581)	(9)	(58,146)
Carrying amount at 30 September 2008	1,022	7,992	10,646	10,291	17	29,968

6. Goodwill

	Note	30 September 2008
Gross book value as of 1 January		207,329
Accumulated impairment as of 1 January		-
Carrying amount as of 1 January		207,329
Acquisitions of subsidiaries	7	4,519
Carrying amount as of 30 September		211,848
Gross book value as of 30 September		211,848
Accumulated impairment losses as of 30 September		-
Carrying amount as of 30 September		211,848

Goodwill is allocated to cash generating units (CGU), which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment for segment reporting purposes as follows:

	30 September 2008	2007
Tomskgazstroy OJSC	16,757	16,757
Trest Sibkomplektmontazhnaladka OJSC	190,572	190,572
Hydromash-Industria LLC	4,519	-
Total carrying amount of goodwill	211,848	207,329

7. Business Combinations

In March 2008 the Group acquired a 100% interest in Hydromash-Industria LLC for RR 10,324 paid in cash.

The acquired subsidiary is engaged in the design of pumping equipment and spare parts. The cost of acquisition was allocated to the assets acquired and liabilities assumed. The acquired company contributed revenue of RR 9,355 and loss of RR 5,313 to the Group for the period from the date of acquisition to 30 September 2008. If the acquisition had occurred on 1 January 2008, the revenue from the acquired business would have been RR 12,002, and loss would have been RR 5,761 for the nine months ended 30 September 2008.

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Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

7. Business Combinations (continued)

The summary of assets acquired and liabilities assumed are as follows:

	Attributed fair value
Cash and cash equivalents	634
Property, plant and equipment	141
Intangible assets	4,893
Trade and other receivables	2,934
Inventories	3,124
Other assets	-
Borrowings	(500)
Trade and other payables	(3,769)
Other taxes payable	(169)
Finance lease liability	-
Deferred tax liability	(1,483)
Other liabilities	-
Fair value of net assets	5,805
Less: Minority interest	-
Fair value of acquired interest in net assets	5,805
Goodwill	4,519
Total purchase consideration	10,324
Less: cash and cash equivalents of subsidiary acquired	(634)
Outflow of cash and cash equivalents on acquisition	9,690

In July 2008 the Group contributed RR 966 to a newly formed HMS-Promburvod CJSC in exchange for 51% interest. This entity will be a trading company for the Group's pumping equipment and spare parts.

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

The valuation of identifiable tangible and intangible assets was performed by an independent professional appraiser.

The acquired entity did not prepare IFRS financial statements prior to the acquisition. Management believes that determination of IFRS carrying amounts immediately before the acquisition is impractical.

Acquisition of minority interest in subsidiaries

In June 2008, Tomskgazstroy OJSC increased its share capital by RR 20,000 through issuing of 100 thousand of preference shares with the nominal value of RR 200 each. Preference shares were sold to related parties (ultimate beneficiaries of the Group). In August 2008, the Group acquired an additional 2.12% interest in Tomskgazstroy OJSC for RR 4,471, respectively, paid in cash. As a result the effective interest in the subsidiary owned by the Group increased from 50.7% to 99.9% and minority interest decreased by RR 222,586.

In February 2008, the Group acquired an additional 1.4% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 1,419, respectively, paid in cash. In August 2008, the Group acquired an additional 0.15% interest in Trest Sibkomplektmontazhnaladka OJSC for RR 160, respectively, paid in cash. As a result of these transactions, the Group increased its ownership interest in Trest Sibkomplektmontazhnaladka OJSC from 97.0% to 98.6% decreasing the minority interest by RR 5,191.

8. Investments in Associates

In April 2008 the Group acquired 30% interest in Sibnefteavtomatika OJSC for RR 50,605 paid in cash. The Group's share within associated net assets as at acquisition date was RR 59,760. The excess of fair value of the net assets acquired over the cost of acquisition of RR 9,155 was recorded in the income statement and included in the share of results of associates.

Investments in associates at 30 September 2008 included goodwill of RR 156,387 (31 December 2007: RR 156,387).

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***8. Investments in Associates (continued)**

The Group's investments in associates are as follows:

	2008	2007
Carrying amount at 1 January 2008 / 1 January 2007	416,860	-
Cost of acquisition of associates	50,605	398,731
The excess of fair value of the net assets acquired over the cost of acquisition	9,155	9,680
Dividends	(9,834)	-
Share of after tax results of associates	12,672	8,449
Carrying amount at 30 September 2008 / 31 December 2007	479,458	416,860

9. Cash and Cash Equivalents

	30 September 2008	31 December 2007
Cash on hand	2,572	2,392
RR denominated balances with banks	285,324	271,796
Foreign currency denominated balances with banks	37,835	22,625
RR denominated bank deposits	-	4,653
Promissory notes receivable on demand	7,820	72,633
Other cash equivalents	6,676	3,104
	340,227	377,203

Restricted cash

Restricted cash of RR 1,783 represents minimum balances for settlement and deposit accounts and corporate plastic cards balances (2007: RR 890).

10. Inventory

	30 September 2008	31 December 2007
Materials and components	836,677	601,388
Inventory for implementation of construction contracts	502,492	398,386
Work in progress	539,857	364,542
Finished goods	471,025	280,095
Goods for resale	317,778	225,464
Other inventories	175,943	51,309
Provision for obsolete inventories	(92,197)	(68,226)
	2,751,575	1,852,958

At 30 September 2008 the inventories of RR 206, 338 were pledged as collateral for borrowings (2007: 204,823) (Note 11).

11. Borrowings

	Interest rate	Denominated in	Maturity	30 September 2008	31 December 2007
Long-term loan:					
Bonds	9.9%	RR	November 2009	153,045	1,009,221
Long-term loan 1	10.8%	US dollar	September 2009	65,351	50,901
Long-term loan 3	16%	RR	September 2009	-	1,730
				218,396	1,061,852
Interest on long-term borrowings				5,914	
Less: short-term portion of bond				-	(1,009,221)
				224,310	52,631

In October 2006 one of the Group subsidiaries, HYDROMASHSERVICE CJSC, issued 1,000 thousand non-convertible three-year Russian Rouble denominated bonds (at par value 1,000 roubles each) for RR 1,000,000. The bonds bear interest rate of 9.9% per annum. The interest is payable every six months. In May 2008 the bond holders claimed redemption of bonds for RR 846,955. The fair value of the bonds, which is based on market quotations, approximates RR 153,045.

As of 30 September 2008 and 31 December 2007 the fair value of long-term borrowings approximates their carrying amount.

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***11. Borrowings (continued)**

The bonds are secured by guarantees issued by the Group companies (Livgidromash OJSC, Livnynasos OJSC, Neftemash OJSC, GIDROMASHINPROM CJSC).

	Interest rate	Denominated in	30 September 2008
Short-term unsecured bank loans and borrowings			
Unsecured bank loan 1	10-13,5%	RR	2,736,440
Unsecured bank loan 2	7-9%	RR	500,000
Unsecured bank loan 3	12%	RR	98,000
			3,334,440
Short-term secured bank loans			
Secured bank loan 1	11%	US dollars	44,918
Secured bank loan 2	16%	RR	4,340
Secured bank loan 3	20%	UAH	9,774
Secured bank loan 4	15-16%	UAH	4,495
Secured bank loan 5	10%	EURO	13,970
Secured bank loan 6	10%	RR	1,835
			79,332
Interest on short-term borrowings			715
			3,414,487

	Interest rate	Denominated in	31 December 2007
Short-term unsecured bank loans and borrowings			
Unsecured bank loan 1	11%	RR	1,703,300
Unsecured bank loan 2	11%	US dollars	47,070
Unsecured bank loan 3	15-16%	UAH	32,970
Unsecured bank loan 4	3%	RR	-
Unsecured bank loan 5	11-12%	RR	-
Unsecured bank loan 6	12%	US dollars	-
Unsecured bank loan 7	17%	RR	-
Unsecured bank loan 8	11%	EURO	-
Unsecured bank loan 9	15%	UAH	-
Unsecured bank loan 11	12%	RR	-
			1,783,340
Short-term secured bank loans			
Secured bank loan 1	10-11%	RR	95,000
Secured bank loan 2	10%	RR	9,737
			1,888,077
Current portion of long-term borrowings			1,009,221
Interest on short-term borrowings			1,554
			2,898,852

The Group's borrowings are denominated in the following currencies:

	30 September 2008	31 December 2007
RR	3,500,290	2,820,542
US Dollar	110,269	97,971
EURO	13,970	-
UAH	14,269	32,970
	3,638,798	2,951,483

As at 30 September 2008 the Group pledged property, plant and equipment and inventories in total amounts of RR 164,738 and 206, 338, respectively, as a security for borrowings (2007: RR 192,522; RR 204,823).

As of 30 September 2008 and 31 December 2007 the fair value of short-term borrowings approximates their carrying amount.

The Group has not entered into any hedging agreements in respect of its foreign currency obligations or interest rate exposures.

HMS GROUP OJSC

Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

12. Retirement Benefit Obligations

The following amounts were recognized within administrative expenses in the consolidated condensed interim income statement:

	Nine months ended 30 September 2008
Current service cost	14,578
Interest cost	7,998
Past service cost recognised during the period	-
Actuarial loss recognised during the period	9,587
Net periodic benefit cost	32,163

The amounts recognized in the consolidated balance sheet were determined as follows:

	Nine months ended 30 September 2008
Present value of defined benefit obligations	156,458
Unrecognised actuarial gains/(losses)	-
Past service cost recognised during the period	-
Liability in the balance sheet	156,458

Changes in the present value of the Group's pension benefit obligation are as follows:

	Nine months ended 30 September 2008
Present value of defined benefit obligations at the beginning of the period	129,952
Current service cost	14,578
Interest expense	7,998
Actuarial losses	9,587
Benefits paid	(5,657)
Past service cost recognised during the period	-
Present value of defined benefit obligations as at the end of the period	156,458

Short-term and long-term classification was determined based on discounted value of future obligation which is payable within 12 months from the balance sheet date:

	30 September 2008	31 December 2007
Short-term	4,844	11,676
Long-term	151,614	118,276
Present value of defined benefit obligations as at the end of year	156,458	129,952

13. Construction Contracts

During nine months of the 2008 the construction contracts revenue was recognized in relation to stage of completion for each contract. The stage of completion of a contract was determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

	Nine months ended 30 September 2008	
Construction contracts revenue	3,672,315	
Contract cost expensed	(3,183,658)	
Gross margin	488,657	

	30 September 2008	31 December 2007
Advances, received for construction contracts	799,901	326,640
Retentions	291	61,739

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***13. Construction Contracts (continued)**

The Group's financial position with respect to construction constructs in progress is as follows:

	30 September 2008
Aggregate amount of contract cost incurred	4,762,185
Aggregate amount of recognized profits	689,434
Aggregate amount of recognized losses	(17,170)
Less: Progress billings	(5,241,449)
Gross amount due from customers for contract work	193,000

	30 September 2008
Aggregate amount of contract cost incurred	1,723,404
Aggregate amount of recognized profits	302,555
Aggregate amount of recognized losses	-
Less: Progress billings	(2,172,541)
Gross amount due to customers for contract work	(146,582)

14. Share Capital

As at 30 September 2008 and 31 December 2007 there were three participants in the Company:

Participant	30 September 2008		31 December 2007
	Ownership, %	Amount, RR'000	Amount, RR'000
Hydroindustry LLC	42.5	251,252	92,684
Hydromashinvest LLC	42.5	251,252	92,684
Promhydroservice LLC	15	88,676	32,712
	100	591,180	218,080

On 29 August 2008 the Company's participants completed the reorganization of the Company into an open joint-stock company named HMS Group OJSC. The interests held by the Company's participants of RR 591,180 shall be exchanged to 1,182,361,300 ordinary shares of RR 0.5 par value each, and the ownership ratios of the participants remained intact.

To bring in balance, net assets attributable to participants of the Company as of 31 December 2007 with presentation of equity after reorganisation as of 30 September 2008 were presented in equity:

Attributable to participants of the Company				
Balance as of 31 December 2007	Share capital	Cumulative currency translation reserve	Retained earnings	Total equity
Paid-in capital	218,080	-	-	218,080
Cumulative surplus of net assets	-	(34,824)	1,573,306	1,538,482
Total	218,080	(34,824)	1,573,306	1,756,562

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***14. Share Capital (continued)**

In May 2008 the participants of the Company increased the charter capital from RR 218,080 to RR 591,180 through making capital contribution of 100% of shares of Hydromashkomplekt LLC with its 100% subsidiary Business-Centre Hydromash LLC to the Group.

The summary of assets and liabilities contributed are as follows:

	Hydromashkomplekt LLC	Business-Centre Hydromash LLC	Total
	Attributed fair value	Attributed fair value	Attributed fair value
Cash and cash equivalents	23,355	193	23,548
Property, plant and equipment	86,558	353,237	439,795
Intangible assets	10	-	10
Deferred tax assets	-	-	-
Other non-current assets	39	-	39
Trade and other receivables	23,176	29,080	52,256
Inventories	108	55	163
Borrowings	-	(55,621)	(55,621)
Trade and other payables	(76,431)	(1,163)	(77,594)
Other taxes payable	(346)	(69)	(415)
Deferred tax liability	(19,736)	(53,214)	(72,950)
Fair value of net assets	36,733	272,498	309,231

During nine months 2008, dividends were accrued only to the holders of preference shares reflected in the amount of RR 292,820 (2007: RR 221,689 for the whole year), but no dividends were paid to participants or minority holders of common shares.

15. Income Tax

The Group income tax charges were as follows:

	30 September 2008
Current tax	281,449
Deferred tax benefit	(95,479)
Total income tax charge	185,970

Most companies of the Group were subject to tax rate of 24% on taxable profits in the Russian Federation for nine months period ended 30 September 2008.

16. Revenue

	Nine months ended 30 September 2008
Sales of pumps and spare parts	3,422,776
Revenue from construction contracts	3,672,315
Sales of oilfield equipment	2,675,259
Sales of repair services for oil-field equipment	608,423
Sales of engines	331,540
Sales of products, work and services of auxiliary units	51,690
Sales of other services and goods	453,077
	11,215,080

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September****2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***17. Cost of Sales**

	Nine months ended 30 September 2008
Supplies and raw materials	4,353,456
Cost of goods sold	1,496,068
Labour costs	1,507,769
Construction and installation works of subcontractors	899,368
Depreciation and amortization	181,742
Utilities	55,467
Inventory impairment provision	12,996
Research and development costs	9,586
Change in work in progress and finished goods	(425,945)
Other expenses	461,613
	8,552,120

18. Distribution and Transportation Expenses

	Nine months ended 30 September 2008
Transportation expenses	103,941
Labour costs	100,165
Entertaining costs and business trip expenses	19,061
Insurance	15,096
Advertising	12,816
Lease	13,314
Packaging expenses	13,126
Customs duties	6,508
Depreciation and amortization	5,892
Capital assets repair and maintenance	3,930
Agency services	13,788
Products certification	1,434
Other expenses	29,672
	338,743

19. General and Administrative Expenses

	Nine months ended 30 September 2008
Labour costs	647,769
Taxes and duties	80,789
Audit and consultancy services	53,331
Depreciation and amortization	48,017
Stationary and office maintenance	49,951
Entertaining costs and business trip expenses	34,851
Provision for impairment of accounts receivable	85,596
Defined benefits scheme expenses	24,613
Rent	18,324
Security	19,450
Telecommunications services	18,906
Insurance	15,525
Bank services	23,762
Property, plant and equipment repair and maintenance	20,224
Training and recruitment	9,142
Provision for tax risks	45,172
Other expenses	84,385
	1,279,807

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***20. Other Operating Expenses, Net**

	Nine months ended 30 September 2008
Charity, social expenditures	101,679
Gains (losses) on sales and other disposal of property, plant and equipment and intangible assets	17,697
Fines and late payment interest under contracts	10,248
Gain on disposal of subsidiaries	(6,208)
Gain from transactions with securities	(1,592)
Depreciation of social assets	2,484
Investments impairment provision	-
Gain on sales of inventories	(39,640)
Foreign exchange losses, (net)	7,676
Other expenses	(1,722)
	90,622

21. Finance Income

	Nine months ended 30 September 2008
Interest income	18,006
Other income	3,919
	21,925

22. Finance Expense

	Nine months ended 30 September 2008
Interest expenses	270,530
Foreign exchange losses (net)	4,746
Finance lease expenses	10,304
	285,580

23. Related Parties

Parties are generally considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties may not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The table below contains the disclosure by group of related parties with which the Company entered into significant transactions or has significant balances outstanding. Other category comprises the parties indirectly controlled by the Group through one or more intermediaries:

Balances with related parties	30 September 2008		
	Participants	Associates	Other
Loans issued	79,632	-	-
Accounts receivable	-	7,580	3,218
Accounts payable	-	5,292	1,393

Balances with related parties	31 December 2007		
	Participants	Associates	Other
Loans issued	-	-	30,220
Accounts receivable	-	5,672	10,502
Accounts payable	-	4,379	34,407

No provision was made for accounts receivable due from related parties.

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***23. Related Parties (continued)**

Neither party issued guaranties to secure accounts receivable or payable.

Income /expenses on transactions with related parties	Nine months ended 30 September 2008		
	Participants	Associates	Other
Dividends income		8,358	-
Sales of services	-	1,068	564
Payment for research and development		86,413	-
Purchase of services	-	1,545	385
Purchase of goods	-	53,361	-
Purchase of materials and components	-	44,813	28,839

For the nine months ended 30 September 2008, the Group issued loans to related parties for a total of RR 79,632 with a weighted average interest rate of 12.3%.

Key management compensation

Key management compensation amounted to RR 50,249 for the nine months ended 30 September 2008 and includes short-term benefits such as salaries and bonuses paid to management as set forth in labour contracts concluded annually.

24. Contingencies, Commitments and Operating Risks*(i) Legal proceeding*

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in this consolidated condensed interim financial information.

(ii) Tax legislation

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the state authorities.

The Russian and Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court of the Russian Federation issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

24. Contingencies, Commitments and Operating Risks (continued)

(ii) Tax legislation (continued)

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

In addition to the above transfer pricing matters and possible attribution of additional taxes to the Group's foreign companies, Management estimates that the Group has no other possible obligations from exposure to other than remote tax risks.

(iii) Environmental matters

The enforcement of environmental regulation in Russian Federation and Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(iv) Operating environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation and Ukraine.

The Russian Federation and Ukraine display certain characteristics of an emerging market, including relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in market prices as witnessed during 2008. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation and Ukraine is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation and Ukraine. The future economic direction of the Russian Federation and Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Governments of the states, together with tax, legal, regulatory, and political developments.

(v) Insurance policies

The Russian and Ukrainian insurance services market is evolving. Part of the Group's production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group's property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group's financial position and operations.

(vi) Contractual commitments

As at 30 September 2008 the Group had contractual commitments for the purchase of components for construction of property, plant and equipment for RR 105,051 (31 December 2007: RR 85,162).

24. Contingencies, Commitments and Operating Risks (continued)

(vii) *Recent volatility in global and Russian financial markets*

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on cash flow forecasts and assessment of the impairment of financial and non-financial assets by management. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian stock markets and at times much higher than normal interbank lending rates.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

25. Operating Segments

The Group early adopted IFRS 8, *Operating Segments*, for the year ended 31 December 2007. Operating segments information for the nine months ended 30 September 2008 is presented without comparative figures. Management has determined the operating segments based on the management reports, which are primarily derived from statutory records and regularly reconciled to IFRS financial statements. The management reports are reviewed by the chief operating decision-maker that are used to make strategic decisions. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President of the Company. The following criteria have been used for determining the operating segments and assigning the Group subsidiaries to particular segment:

- I. Business activities of companies;
- II. Organizational structure of companies;
- III. Nature of production processes;
- IV. Manufactured and sold products;
- V. Specific characteristics of buyers/customers.

Management considers the business from both a geographical and product perspective.

The first operating segment "Industrial pumps" includes:

	30 September 2008	2007
1	Livhydromash OJSC	Livhydromash OJSC
2	LPKC LLC	LPKC LLC
3	Electrodivigatel OJSC	Electrodivigatel OJSC
4	Livnynasos OJSC	Livnynasos OJSC
5	HYDROMASHINPROM CJSC	HYDROMASHINPROM CJSC
6	Nasosenergomash OJSC	Nasosenergomash OJSC
7	Trade house HYDROMASHSERVICE Ukraine LLC (formerly TH Sumskie Nasosy LLC)	TH Sumskie Nasosy LLC
8	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
9	Hydromash-Industry LLC	
10	Nizhnevartovskremservis CJSC	
11	HMS-Promburvod CJSC	

The second operating segment "Oil and gas equipment" includes:

	30 September 2008	2007
1	Neftemash OJSC	Neftemash OJSC
2	Nizhnevartovskremservis CJSC	Nizhnevartovskremservis CJSC
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	HYDROMASHINPROM CJSC	

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***25. Operating Segments (continued)**

The third operating segment "Oil and gas construction" includes:

	30 September 2008	2007
1	Trest Sibkomplektmontazhnaladka OJSC	Trest Sibkomplektmontazhnaladka OJSC
2	Tomskgazstroy OJSC	Tomskgazstroy OJSC
3		Otdelochnik Tomskgazstroy LLC

The table below lists other companies that did not fall under the above listed operating segments:

	30 September 2008	2007
1	Hydraulic Machines and Systems Management LLC	Hydraulic Machines and Systems Management LLC
2	HMS Group OJSC(formerly Hydraulic Machines and Systems Group LLC)	Hydraulic Machines and Systems Group LLC
3	HYDROMASHSERVICE CJSC	HYDROMASHSERVICE CJSC
4	Hydromashkomplekt LLC	
5	Business Center HYDROMASH LLC	
6	United Industrial Group LLC (no business)	United Industrial Group LLC (no business)
7	Sibservice LLC (no business)	Sibservice LLC (no business)

List of associates with the breakdown by operating segments:

The first operating segment "Industrial pumps" includes:

	30 September 2008	2007
1	Promburvod Plant OJSC	Promburvod Plant OJSC
2	VNIIAEN OJSC	VNIIAEN OJSC

The second operating segment "Oil and Gas equipment" includes:

	30 September 2008	2007
1	Dimitrovgradhimash OJSC	Dimitrovgradhimash OJSC
2	Sibnefteavtomatika OJSC	

Geographically, management considers the performance of their subsidiaries in Russia, Ukraine, Belorussia and location of the customers where the Group performs its trade and commercial activities.

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, oil and gas equipment, oil and gas construction and the other products and services.

Sales between segments are carried out at arm's length. The revenue from external parties reported to management is measured in a manner consistent with that in income statement.

Management assesses the performance of operating segments based on certain measures, which are presented to chief operating decision maker. This includes the financial information on the group operating reportable segments presented in accordance with Russian Statutory Accounting regulations (RSA). The information comprises measures of revenues, depreciation and amortization, interest income, interest expense, income tax expense and total assets. The other measures used by chief operating decision maker include income tax charge and aggregate share in net profit of associates recorded based on equity method, which are calculated and presented in accordance with International Financial Reporting Standards. Besides, management uses Earnings Before Interest Tax Depreciation and Amortization, which is derived from consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The RSA segment reporting information and EBITDA are reconciled to the amounts reported in the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The measurement basis excludes the effects on non-recurring expenditure from the operating segments, such as restructuring costs, legal expenses and goodwill impairments, when the impairment is a result of an isolated, non-recurring event.

HMS GROUP OJSC**Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)***(in thousands of Russian Roubles, unless otherwise stated)***25. Operating Segments (continued)**

The Group's financial performance by operating segments for the nine months ended 30 September 2008:

Disclosures by segments	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Intersegment elimination	Consolidated for the nine months ended 30 September 2008
Revenue, RSA	5,451,945	3,614,471	4,384,866	441,752	13,893,034	-	13,893,034
Revenue, IFRS	4,168,838	3,292,635	4,097,679	291,678	11,850,830	(635,750)	11,215,080
EBITDA, IFRS	619,582	511,586	350,872	59,847	1,541,887	(22,865)	1,519,022
Total assets, RSA	6,390,453	2,575,473	2,828,414	1,667,362	13,461,702	-	13,461,702

Reconciliation of EBITDA derived from IFRS accounting records to profit before income tax as per consolidated condensed interim income statement:

Description	Industrial pumps	Oil and gas equipment	Oil and gas construction	All other segments	Total	Intersegment elimination	Consolidated for the nine months ended 30 September 2008
EBITDA, IFRS	619,582	511,586	350,872	59,847	1,541,887	(22,865)	1,519,022
Depreciation and amortization	(71,695)	(42,364)	(118,671)	(5,403)	(238,133)	-	(238,133)
Non-monetary items*	(37,228)	(27,659)	(134,902)	(13,958)	(213,747)	-	(213,747)
Other income and expense	(33,729)	(48,521)	(11,893)	(19,211)	(113,354)	-	(113,354)
Operating profit/loss	476,930	393,042	85,406	21,275	976,653	(22,865)	953,788
Interest income	19,982	7,644	(144)	1,077	28,559	(10,553)	18,006
Interest expense	(120,665)	(69,644)	(86,911)	(3,863)	(281,083)	10,553	(270,530)
Interest expense on leasing liabilities	(154)	(747)	(9,403)	-	(10,304)	-	(10,304)
Other finance income and expense	-	(30)	3,949	-	3,919	-	3,919
Exchange gains and losses, net	(4,883)	95	-	42	(4,746)	-	(4,746)
Share of results associates	(3,439)	25,266	-	-	21,827	-	21,827
Profit/(loss) before income tax, IFRS	367,771	355,626	(7,103)	18,531	734,825	(22,865)	711,960

*Non-monetary items consists of: inventory impairment provision, provision for impairment of accounts receivable, unused vacation allowance, etc.

HMS GROUP OJSC

Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

26. Subsequent Events

In November 2008 the Group acquired a 100% interest in SPA Gidromash CJSC, for a consideration of RR 129,290, paid in cash. The company's activity is producing and selling of pumps and related equipment. Management has commenced assessment of the fair values of the assets and liabilities acquired. The assessment was not completed at the time of finalising this consolidated condensed interim financial information.

	Attributed fair value determined provisionally
Cash and cash equivalents	1,351
Trading securities	12,704
Loans and advances to customers	40,284
Property, plant and equipment	55,310
Intangible assets	22
Inventory	60,831
Other assets	1,748
Borrowings	(6,423)
Trade and other payables	(79,318)
Other liabilities	(30)
Net assets acquired	86,479
Goodwill and other intangible assets	42,811
Total purchase consideration	129,290
Less: cash and cash equivalents of subsidiary acquired	(1,351)
Cash outflow on acquisition	127,939

In December 2008 the Group acquired a 86% interest in Institute Rostovskiy Vodokanalproekt OJSC, for a consideration of RR 163,032, paid in cash. The company's activity is design of water-supply systems, sewage systems and related equipment. Management has commenced assessment of the fair values of the assets and liabilities acquired. The assessment was not completed at the time of finalising this consolidated condensed interim financial information.

	Attributed fair value determined provisionally
Cash and cash equivalents	7,063
Trading securities	12,609
Loans and advances to customers	27,730
Property, plant and equipment	3,277
Deferred tax assets	511
Inventory	36,817
Other assets	172
Borrowings	(2,500)
Trade and other payables	(45,977)
Deferred tax liability	(1,672)
Net assets acquired	38,030
Goodwill and other intangible assets	130,444
Minority interest	(5,442)
Total purchase consideration	163,032
Less: cash and cash equivalents of subsidiary acquired	(7,063)
Cash outflow on acquisition	155,969

In December 2008 the Group acquired control over Promburvod Plant OJSC by increasing its share from 39.99% to 51.38% for purchase consideration of RR 5,078, paid in cash. The company's activity is producing and selling of pumps and related equipment. Management has commenced assessment of the fair values of the assets and liabilities acquired. The assessment was not completed at the time of finalising this consolidated condensed interim financial information.

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Notes to the Consolidated Condensed Interim Financial Information for the nine months ended 30 September 2008 (unaudited)

(in thousands of Russian Roubles, unless otherwise stated)

26. Subsequent Events (continued)***Acquisitions of non-controlling interest in subsidiaries***

Subsequent to the balance sheet date the Group acquired non-controlling interest in the following subsidiaries:

Company name	Interest acquired, %	Cost, RR	Date of acquisition	Notes
Sibkomplektmontazhnaladka Trust OJSC	1.4%	1,900	January 2009	Paid in cash

As a result the effective interest in the subsidiary owned by the Group increased from 98.6% to 100%.

Borrowings. Subsequent to the balance sheet date the Group's subsidiaries received short-term loans in the amount of RR 472,761 from three banks. These loans are secured by the Group guarantees. The short-term loans mature in March-September 2009 and bear the interest rates of 16%.

Change in income tax rate. An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009. If the rate of 20% was applied to calculation of tax effect of temporary differences that are expected to reverse in periods subsequent to 1 January 2009 the deferred tax liability as at 30 September 2008 would have been lower by RR 26,469.

Impact of world liquidity crisis on Group's activity. As a result of world liquidity crisis several companies of the Group changed payment period from customers from 30 to 60 days. The contractual relationship with customers remained stable to 31 December 2008, except for Trest Sibkomplektmontazhnaladka OJSC. Certain customers of Trest Sibkomplektmontazhnaladka OJSC have cancelled seven contracts in the amount of RR 2,471,714. Management believes that this impact is of temporary nature and plans to compensate this drop through participation in new tenders and increase the number of contracts during the nine months of 2009.

27. Seasonality

The sales of pumps and engineering services are subject to seasonal fluctuations, with the peak demand in the second quarter of the year. This is due to growth business activity of the customers in the second quarter of the year. For the nine months ended 30 September 2008, the level of sales of pumps and engineering services represented 68% of the annual level of sales of pumps and engineering services for the year ended 31 December 2007.