Financial results

Business & Outlook
## Financial Highlights

### Highlights

<table>
<thead>
<tr>
<th></th>
<th>2018 FY</th>
<th>2017 FY</th>
<th>chg, yoy</th>
<th>2018 4Q</th>
<th>2017 4Q</th>
<th>chg, yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>52,619</td>
<td>44,422</td>
<td>18%</td>
<td>20,757</td>
<td>13,011</td>
<td>60%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6,621</td>
<td>6,839</td>
<td>-3%</td>
<td>2,302</td>
<td>1,852</td>
<td>24%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>12,002</td>
<td>11,887</td>
<td>1%</td>
<td>3,930</td>
<td>3,406</td>
<td>15%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>4,200</td>
<td>4,555</td>
<td>-8%</td>
<td>1,499</td>
<td>1,147</td>
<td>31%</td>
</tr>
<tr>
<td>Profit for the year /period</td>
<td>1,946</td>
<td>2,070</td>
<td>-6%</td>
<td>772</td>
<td>419</td>
<td>85%</td>
</tr>
</tbody>
</table>

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<tbody>
<tr>
<td>EBITDA margin</td>
<td>12.6%</td>
<td>15.4%</td>
<td>-281 bps</td>
<td>11.1%</td>
<td>14.2%</td>
<td>-314 bps</td>
</tr>
<tr>
<td>Gross margin</td>
<td>22.8%</td>
<td>26.8%</td>
<td>-395 bps</td>
<td>18.9%</td>
<td>26.2%</td>
<td>-725 bps</td>
</tr>
<tr>
<td>Operating margin</td>
<td>8.0%</td>
<td>10.3%</td>
<td>-227 bps</td>
<td>7.2%</td>
<td>8.8%</td>
<td>-159 bps</td>
</tr>
<tr>
<td>Net income margin</td>
<td>3.7%</td>
<td>4.7%</td>
<td>-96 bps</td>
<td>3.7%</td>
<td>3.2%</td>
<td>50 bps</td>
</tr>
</tbody>
</table>

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total debt</td>
<td>19,360</td>
<td>16,042</td>
<td>21%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>13,065</td>
<td>11,422</td>
<td>14%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA LTM</td>
<td>6,621</td>
<td>6,839</td>
<td>-3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt to EBITDA LTM</td>
<td>1.97</td>
<td>1.67</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Revenue and EBITDA

<table>
<thead>
<tr>
<th></th>
<th>Revenue, Rub bn</th>
<th>EBITDA, Rub bn</th>
<th>EBITDA margin, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 4Q</td>
<td>15.4%</td>
<td>12.6%</td>
<td>14.2%</td>
</tr>
<tr>
<td>4Q 2017</td>
<td>14.2%</td>
<td>11.1%</td>
<td>11.1%</td>
</tr>
<tr>
<td>3Q 2018</td>
<td>8.7%</td>
<td>11.5%</td>
<td>20.8%</td>
</tr>
</tbody>
</table>

Source: Company data, IFRS accounts
**SEGMENTS OVERVIEW**

**PUMPS**
- Revenue Rub 17.8 bn, up 2% yoy
- EBITDA Rub 2.4 bn, down 24% yoy due to a decline in recurring business as well as the high-base effect due to a number of modular equipment contracts signed in 2017 with higher than average profitability
- EBITDA margin decreased to 13.4%, due to higher revenue and lower EBITDA

**COMPRESSORS**
- Revenue Rub 14.7 bn, up 61% yoy, and EBITDA Rub 1.8 bn, up 54% yoy, due to large contracts
- EBITDA margin 12.0%, lower than in 2017, due to a mix of more profitable projects executed last year

**OIL AND GAS EQUIPMENT & PROJECTS**
- Revenue Rub 20.9 bn, down 3% yoy, due to recurring business
- EBITDA Rub 2.9 bn and higher EBITDA margin due to large contracts

**CONSTRUCTION**
- Revenue up 72% yoy though negative EBITDA
## COSTS

### COST OF SALES

Cost of sales up 25% yoy to Rub 40.6 bn from Rub 32.5 bn:
- Materials and components up 27% yoy
- Labour costs & social taxes increased by 13% yoy
- Depreciation & amortization grew by 20% yoy

### DISTRIBUTION & TRANSPORTATION

Distribution and transportation costs:
- up 7% yoy, mainly due to Labour costs & social taxes increase

### GENERAL & ADMINISTRATIVE

General and administrative expenses:
- up 13% yoy, due to growth in labour costs and social taxes, primarily because of the Long-term incentive program and indexation of wages & salaries
CAPEX & Working Capital

CASH FLOW PERFORMANCE

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<th>2018 FY</th>
<th>2017 FY</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>1,956</td>
<td>5,233</td>
<td>-63%</td>
</tr>
<tr>
<td>Investing cash flow</td>
<td>(2,096)</td>
<td>(2,135)</td>
<td>2%</td>
</tr>
<tr>
<td>Free cash flow (FCF)</td>
<td>(139)</td>
<td>3,098</td>
<td>-105%</td>
</tr>
<tr>
<td>Financing cash flow</td>
<td>1,746</td>
<td>(1,461)</td>
<td>220%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>6,295</td>
<td>4,621</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: Company data, IFRS accounts

CAPITAL EXPENDITURES

2.3 RUB BN
+8% yoy

DIVIDENDS

59.75 Rub
76%
Recommended Dividends Rub 1.4 bn

49.05 Rub
68%
Recommended Dividends Rub 1.15 bn

Source: Company data, IFRS accounts

Note: Differences in calculations can occur due to the rounding-off rule

WORKING CAPITAL

9.1 RUB BN
+17% yoy

Source: Company data, IFRS accounts

Note: Receivables change & other adj.: Trade and other receivables (adjusted by ST loans issued, Bank deposit, Promissory notes receivable) + Contract assets + Current income receivable
Payables change & other adj.: Trade and other payables + Contract liabilities + Provisions for liabilities and charges + Current income payable
STABLE FINANCIAL POSITION

LEVERAGE

**13.1 RUB BN**
+14% yoy

2012: 2.12
2013: 2.36
2014: 1.66
2015: 2.10
2016: 1.67
2017 FY: 1.67
2018 FY: 1.97

Net debt, Rub bn
Net debt-to-EBITDA LTM ratio, x

Source: Company data, IFRS accounts

DEBT REPAYMENT

**18.8 RUB BN**
As of 01 April 2019

Includes Rub 3 bn bonds

Net debt, Rub bn

2019: 452
2020: 3,956
2021: 11,178
2022: 3,221
2023: 

Net debt to be repaid as of 01.04.2019, Rub mn

Source: Company data, management accounts

BANKS

**18.8 RUB BN**
As of 01 April 2019

Includes Rub 3 bn bonds

Ave interest rates as of 01 Apr 2019

- **2018 Total debt** increased to Rub 19.4 bn
- **2018 Net debt** grew to Rub 13.1 bn
- **2018 Net Debt-to-EBITDA LTM ratio** up to 1.97x
- Long-term debt: 94% of total debt portfolio
- Borrowings in Rub: 96% of total debt portfolio

Comments

Source: Company data, management accounts

FID*: Fund of Industrial Development of the Russian Federation
Financial results

Business & Outlook
BACKLOG & ORDER INTAKE

**BACKLOG**

42.6 RUB BN  
+9% yoy

**ORDER INTAKE**

55.9 RUB BN  
-6% yoy

### BACKLOG

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<tr>
<th></th>
<th>2017 FY</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Total Backlog, where</td>
<td>39.1</td>
<td>9%</td>
<td>42.6</td>
</tr>
<tr>
<td>Large integrated projects</td>
<td>20.7</td>
<td>-3%</td>
<td>20.0</td>
</tr>
<tr>
<td>Recurring business</td>
<td>18.4</td>
<td>23%</td>
<td>22.6</td>
</tr>
</tbody>
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### ORDER INTAKE

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<tr>
<td>Total Order intake, where</td>
<td>59.7</td>
<td>-6%</td>
<td>55.9</td>
</tr>
<tr>
<td>Large integrated projects</td>
<td>26.8</td>
<td>-27%</td>
<td>19.5</td>
</tr>
<tr>
<td>Recurring business</td>
<td>32.9</td>
<td>11%</td>
<td>36.4</td>
</tr>
</tbody>
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Source: Company data, management accounts

Note: Reconciliation of 2017 Backlog and Order intake due to a large contract, which was signed in Q2 2017 and adjusted in Q2 2018
HMS REVENUE STRUCTURE

Comments

- Total revenue increased because of a growth in revenue, generated by large pure machine-building integrated contracts
- A stable number of large clients generates revenue from both large contracts and recurring business
- Around 6 thousand of other clients create a “safety cushion” with recurring business
- NOVATEK became one of the main clients alongside Gazprom, Rosneft and Gazprom neft

REVENUE BY PRODUCTS’ TYPE

2017 FY | 2018 FY | Change
---|---|---
Project & construction * | 2.3 | 3.8 | 1.5
Export sales | 3.2 | 3.8 | 0.6
Large integrated contracts (machine-building) | 11.3 | 19.1 | 7.8
Recurring business (machine-building, domestic sales) | 27.6 | 25.9 | -1.7

REVENUE BY TOP-7 CLIENTS

**REVENUE 2017**

- Gazprom | 23.2%
- Rosneft | 21.7%
- Gazprom neft | 10.1%
- Transneft | 4%
- Lukoil | 3.7%
- Surgutneftegaz | 1.2%
- SIBUR | 1.1%
- Others | 35%

**REVENUE 2018**

- Gazprom | 33.9%
- Rosneft | 11.6%
- Gazprom neft | 4.4%
- Novatek | 4.3%
- Slavneft | 4.1%
- Lukoil | 2.7%
- NorNickel | 2.5%
- Others | 36.5%

Source: Company data, IFRS and management accounts

* Project & construction includes revenue, generated from large oil infrastructure construction contracts
HMS Hydraulic Machines & Systems Group Plc is listed on the London Stock Exchange (Main market, IOB):

- **Identifier**: ISIN
- **Number**: RegS: US40425X4079, 144A: US40425X3089
- **Ratio**: 1 GDR : 5 Shares
- **Ticker**: HMSG
- **Bloomberg**: HMSG LI
- **Reuters**: HMSGq.L

**Number of shares outstanding**: 117,163,427

**Company address**: 7 Chayanova Str.
Moscow 125047
Russia

**Contact**

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Notes to the presentation and formulas used for some figures’ calculations

- All figures in millions of Russian Rubles, unless otherwise stated
- Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the consolidated financial statements prepared in accordance with IFRS
- **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
- **EBIT** is calculated as **Gross profit** minus **Distribution & transportation expenses** minus **General & administrative expenses** minus **Other operating expenses**
- **Total debt** is calculated as **Long-term borrowings** plus **Short-term borrowings**
- **Net debt** is calculated as **Total debt** minus **Cash & cash equivalents** at the end of the period
- **ROCE** is calculated as **EBIT LTM** divided by **Average Capital Employed (Total debt + Total equity)**
- **ROE** is calculated as **Total equity period average** divided by **Profit for the period**
- **Operating profit adj. & Profit for the year adj.** are deferred as adjusted by impairment of PPE, investment property and goodwill
- **Capex** = Organic capex = Purchase of PPE + Purchase of intangible assets
- **Backlog** is calculated as the preceding backlog plus new or additional customer orders booked during the reporting period, less amounts of contract value booked as revenue under “Russian GAAP” on an unconsolidated basis under the relevant contracts, plus or minus adjustments made in the judgment of the Group’s management. The Group may also make certain adjustments to bookings to reflect amendment, expiry or termination of contracts, cancellation of orders, changes in price terms under contracts or orders, or other factors affecting the amount of potential revenue which the Group believes may be recognized under such contracts. The Group’s backlog estimates are not an indication of potential revenues. Actual revenues and other measures of financial performance under IFRS may differ materially from any estimate of backlog, and changes in backlog between periods may have limited or no correlation to changes in revenue or any other measure of financial performance under IFRS

- At 31 December 2017 and 2016, the unsecured non-bank loan in amount of RR 500,000 with initial maturity in 2018-2020 was presented within the current portion of long-term borrowings due to the breach of certain financial covenants related to operational performance of the large investment project, financed by this loan (Notes 34, 36). The creditor had not requested early repayment of the loan as of the date when these consolidated financial statements were authorised for issuance. The schedule of debt repayment on the slide 7 is shown in accordance with agreements with lenders, without covenants breach