Financial results

Business & Outlook
## FINANCIAL HIGHLIGHTS

### HIGHLIGHTS

<table>
<thead>
<tr>
<th></th>
<th>2018 3m</th>
<th>2017 3m</th>
<th>chg, yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>8,726</td>
<td>9,760</td>
<td>-11%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>1,080</td>
<td>1,047</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>2,178</td>
<td>2,047</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>430</td>
<td>557</td>
<td>-23%</td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td>19</td>
<td>77</td>
<td>-75%</td>
</tr>
</tbody>
</table>

**EBITDA margin**
- 12.4% in 2018 3m, 10.7% in 2017 3m, 165 bps

**Gross margin**
- 25.0% in 2018 3m, 21.0% in 2017 3m, 399 bps

**Operating margin**
- 4.9% in 2018 3m, 5.7% in 2017 3m, -79 bps

**Net income margin**
- 0.2% in 2018 3m, 0.8% in 2017 3m, -57 bps

**Total debt**
- 17,140 in 2018 3m, 15,842 in 2017 3m, 8%

**Net debt**
- 14,842 in 2018 3m, 12,981 in 2017 3m, 14%

**EBITDA LTM**
- 6,872 in 3m'2017 LTM, 6,235 in 3m'2018 LTM, 10%

**Net debt to EBITDA LTM**
- 2.16 in 3m'2017 LTM, 2.08 in 3m'2018 LTM

---

**Revenue and EBITDA**

- **Revenue, Rub bn**
  - Q1'2017: 9.8
  - Q1'2018: 8.7
  - 4Q'2017: 13.0
  - Q1'2018: 8.7
  - 3m'2017 LTM: 14.8%
  - 3m'2018 LTM: 15.8%

- **EBITDA, Rub bn**
  - Q1'2017: 1.0
  - Q1'2018: 1.1
  - 4Q'2017: 1.9
  - Q1'2018: 1.1
  - 3m'2017 LTM: 6.2
  - 3m'2018 LTM: 6.9

- **EBITDA margin, %**
  - 2017 3m: 10.7%
  - 2018 3m: 12.4%

---

**Revenue adj., Rub bn**

- 2011: 5.6
- 2012: 6.1
- 2013: 5.2
- 2014: 5.3
- 2015: 7.4
- 2016: 6.4
- 2017: 6.8

**EBITDA adj., Rub bn**

- 21.8%
- 19.4%
- 16.2%
- 16.3%
- 20.0%
- 15.3%
- 15.4%

**EBITDA margin**

- 2011: 25.5
- 2012: 31.5
- 2013: 32.4
- 2014: 32.4
- 2015: 37.3
- 2016: 41.6
- 2017: 44.4

---

**Total debt, Rub bn**

- 2013: 12.7
- 2014: 11.1
- 2015: 17.0
- 2016: 12.4
- 2017: 15.9

**Net debt, Rub bn**

- 2013: 12.4
- 2014: 12.4
- 2015: 16.3
- 2016: 13.3
- 2017: 16.0

**Net debt-to-EBITDA LTM ratio, x**

- 2013: 2.12
- 2014: 2.36
- 2015: 1.66
- 2016: 2.10
- 2017: 1.67

---

*Source: Company data, IFRS accounts*
**SE Segments Overview**

**Pumps**
- Revenue: Rs 3,530 bn in 2017 Q3, Rs 2,997 bn in 2018 Q3 (down 15% yoy due to a decline in recurring business)
- EBITDA: Rs 576 bn in 2017 Q3, Rs 354 bn in 2018 Q3 (down 39% yoy and EBITDA margin decreased to 11.8% due to less EBITDA generated by both recurring business and large contracts)
- Revenue: Rs 4,661 bn in 2017 Q3, Rs 5,111 bn in 2018 Q3 (up 10% yoy because of growth of large projects)
- EBITDA: Rs 447 bn in 2017 Q3, Rs 828 bn in 2018 Q3 (up 85% yoy due to an increase in large contracts, bringing EBITDA margin up to 16.2%)

**Compressors**
- Revenue: Rs 1,653 bn in 2017 Q3, Rs 1,880 bn in 2018 Q3 (up 14% yoy)
- EBITDA: Rs 172 bn in 2017 Q3, Rs 99 bn in 2018 Q3 (down 42% yoy because less EBITDA generated by recurring business)
- EBITDA margin: 10.4% in 2017 Q3, 5.3% in 2018 Q3 (decreased to 5.3%)

**Construction**
- Revenue: Rs 3,530 bn in 2017 Q3, Rs 2,997 bn in 2018 Q3 (down 15% yoy)
- EBITDA: Rs 576 bn in 2017 Q3, Rs 354 bn in 2018 Q3 (down 39% yoy)
- EBITDA margin: 10.4% in 2017 Q3, 5.3% in 2018 Q3 (decreased to 5.3%)

**Oil and Gas Equipment & Projects**
- Revenue: Rs 4,661 bn in 2017 Q3, Rs 5,111 bn in 2018 Q3 (up 199% yoy vs declining EBITDA)
- EBITDA: Rs 447 bn in 2017 Q3, Rs 828 bn in 2018 Q3 (up 85% yoy due to an increase in large contracts, bringing EBITDA margin up to 16.2%)

**Note:** Segments' revenue include intersegment revenue.

Source: Company data, IFRS accounts

**Revenue**
- Revenue: Rs 1.653 bn in 2017 Q3, Rs 1.880 bn in 2018 Q3 (up 10% yoy)
- EBITDA: Rs 576 bn in 2017 Q3, Rs 354 bn in 2018 Q3 (down 39% yoy)
- EBITDA margin: 10.4% in 2017 Q3, 5.3% in 2018 Q3 (decreased to 5.3%)

**EBITDA**
- EBITDA: Rs 447 bn in 2017 Q3, Rs 828 bn in 2018 Q3 (up 85% yoy due to an increase in large contracts, bringing EBITDA margin up to 16.2%)

**Note:** Segments' revenue include intersegment revenue.
### COSTS

#### COST OF SALES

<table>
<thead>
<tr>
<th></th>
<th>2018 3m</th>
<th>2017 3m</th>
<th>chg, yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of sales</strong></td>
<td>6,548</td>
<td>7,713</td>
<td>-15%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>75.0%</td>
<td>79.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Materials and components</strong></td>
<td>3,672</td>
<td>5,362</td>
<td>-32%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>42.1%</td>
<td>54.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Labour costs</strong></td>
<td>1,359</td>
<td>1,127</td>
<td>21%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>15.6%</td>
<td>11.6%</td>
<td></td>
</tr>
<tr>
<td><strong>Social taxes</strong></td>
<td>376</td>
<td>317</td>
<td>19%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>4.3%</td>
<td>3.2%</td>
<td></td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>1,140</td>
<td>907</td>
<td>26%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>13.1%</td>
<td>9.3%</td>
<td></td>
</tr>
</tbody>
</table>

#### DISTRIBUTION & TRANSPORTATION

<table>
<thead>
<tr>
<th></th>
<th>2018 3m</th>
<th>2017 3m</th>
<th>chg, yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distribution and transportation expenses</strong></td>
<td>460</td>
<td>431</td>
<td>7%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>5.3%</td>
<td>4.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Labour costs</strong></td>
<td>140</td>
<td>126</td>
<td>11%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>1.6%</td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td><strong>Transportation expenses</strong></td>
<td>114</td>
<td>130</td>
<td>-12%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>1.3%</td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td><strong>Social taxes</strong></td>
<td>35</td>
<td>32</td>
<td>36%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>0.4%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>171</td>
<td>143</td>
<td>19%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>2.0%</td>
<td>1.5%</td>
<td></td>
</tr>
</tbody>
</table>

#### GENERAL & ADMINISTRATIVE

<table>
<thead>
<tr>
<th></th>
<th>2018 3m</th>
<th>2017 3m</th>
<th>chg, yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General and administrative expenses</strong></td>
<td>1,227</td>
<td>1,057</td>
<td>16%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>14.1%</td>
<td>10.8%</td>
<td></td>
</tr>
<tr>
<td><strong>Labour costs</strong></td>
<td>644</td>
<td>576</td>
<td>12%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>7.4%</td>
<td>5.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Social taxes</strong></td>
<td>155</td>
<td>141</td>
<td>10%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>1.8%</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Taxes and duties</strong></td>
<td>59</td>
<td>48</td>
<td>22%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>0.7%</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>368</td>
<td>291</td>
<td>27%</td>
</tr>
<tr>
<td><strong>% of revenue</strong></td>
<td>4.2%</td>
<td>3.0%</td>
<td></td>
</tr>
</tbody>
</table>

**Comments**

- **Cost of sales decreased 15% yoy** to Rub 6.5 bn from Rub 7.7 bn:
  - Materials and components were down 32% yoy
  - Labour costs increased by 21%

*Herein, Materials & components, Labour costs and Social taxes were additionally derived from Change in work in progress and finished goods, thereby do not coincide with the note in the financial statement*

- **Distribution and transportation costs:** up 7% yoy, due to growth in labour costs and social taxes

- **General and administrative expenses:**
  - up 16% yoy, due to growth in labour costs and social taxes
  - up to 14.1% as a percentage of revenue, also impacted by quarterly volatility of revenues

Source: Company data, IFRS accounts

Note: Differences in calculations can occur due to the rounding-off rule
CAPEX & Working Capital

CASH FLOW PERFORMANCE

<table>
<thead>
<tr>
<th>Cash flow performance, Rub bn</th>
<th>2018 3m</th>
<th>2017 3m</th>
<th>Chg, yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>(2,648)</td>
<td>1,086</td>
<td>-344%</td>
</tr>
<tr>
<td>Investing cash flow</td>
<td>(258)</td>
<td>(289)</td>
<td>-11%</td>
</tr>
<tr>
<td>Free cash flow (FCF)</td>
<td>(2,906)</td>
<td>797</td>
<td>-464%</td>
</tr>
<tr>
<td>Financing cash flow</td>
<td>574</td>
<td>(894)</td>
<td>-164%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2,298</td>
<td>2,861</td>
<td>-20%</td>
</tr>
</tbody>
</table>

Source: Company data, IFRS accounts

Comments

- Working capital increased 26% yoy due to execution of large contracts
- HMS generated Rub 2.6 bn operating cash out flow vs. cash inflow of Rub 1.1 bn last year
- Organic capex grew to Rub 334 mn (+13% yoy)
- Free cash flow turned negative Rub 2.9 bn

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

**14.8 RUB BN**  
+14% yoy

<table>
<thead>
<tr>
<th>Year</th>
<th>Net debt, Rub mn</th>
<th>Net debt-to-EBITDA LTM ratio, x</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.98</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>2.12</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>2.36</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>1.66</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>2.10</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>1.67</td>
<td></td>
</tr>
<tr>
<td>3m 2017</td>
<td>2.08</td>
<td></td>
</tr>
<tr>
<td>3m 2018</td>
<td>2.16</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data on 01 April, 2018, IFRS accounts

### DEBT REPAYMENT

**17.7 RUB BN**  
As of 01 May 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt to be repaid as of 01.04.2018, Rub mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>212</td>
</tr>
<tr>
<td>2019</td>
<td>614</td>
</tr>
<tr>
<td>2020</td>
<td>8,945</td>
</tr>
<tr>
<td>2021</td>
<td>7,738</td>
</tr>
<tr>
<td>2022</td>
<td>233</td>
</tr>
</tbody>
</table>

Includes Rub 3 bn bonds

Source: Company data, management accounts

### BANKS

**17.7 RUB BN**  
As of 01 May 2018

- 2018 3m Total debt increased to Rub 17.1 bn
- 2018 3m Net debt equaled Rub 14.8 bn
- 2018 3m Net Debt-to-EBITDA LTM ratio amounted to 2.16x
- Long-term debt: 99% of total debt portfolio
- Borrowings in Rub: 98% of total debt portfolio

### Comments

- **2018 3m Total debt increased to Rub 17.1 bn**
- **2018 3m Net debt equaled Rub 14.8 bn**
- **2018 3m Net Debt-to-EBITDA LTM ratio amounted to 2.16x**
- Long-term debt: 99% of total debt portfolio
- Borrowings in Rub: 98% of total debt portfolio

Source: Company data as of 01 April 2018, management accounts, IFRS accounts
Financial results

Business & Outlook
BACKLOG & ORDER INTAKE

BACKLOG

46.0 RUB BN  
+28% yoy

ORDER INTAKE

10.4 RUB BN  
-54% yoy

<table>
<thead>
<tr>
<th>Source: Company data, management accounts</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>3m 2017</th>
<th>chg</th>
<th>3m 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Backlog, where</td>
<td>36.0</td>
<td>+28%</td>
<td>46.0</td>
</tr>
<tr>
<td>Recurring business</td>
<td>20.1</td>
<td>+24%</td>
<td>25.0</td>
</tr>
<tr>
<td>Large integrated projects</td>
<td>16.0</td>
<td>+32%</td>
<td>21.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>3m 2017</th>
<th>chg</th>
<th>3m 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Order intake, where</td>
<td>22.5</td>
<td>-54%</td>
<td>10.4</td>
</tr>
<tr>
<td>Recurring business</td>
<td>7.5</td>
<td>+1%</td>
<td>7.6</td>
</tr>
<tr>
<td>Large integrated projects</td>
<td>15.0</td>
<td>-81%</td>
<td>2.8</td>
</tr>
</tbody>
</table>
**HMS REVENUE STRUCTURE**

**REVENUE BY TOP-7 CLIENTS**

**REVENUE 3m 2017**

9.8 RUB BN

- Rosneft: 35.1%
- Gazprom Neft: 33.1%
- Gazprom: 6.0%
- Lukoil: 5.7%
- Transneft: 4.4%
- Surgutneftegaz: 2.8%
- Nizhnekamskneftehim: 2.4%
- Others: 11.0%

**REVENUE 3m 2018**

8.7 RUB BN

- Gazprom: 35.1%
- Rosneft: 33.1%
- Gazprom Neft: 6.0%
- Slavneft: 5.7%
- Transneft: 4.4%
- Lukoil: 3.2%
- Tatneft: 14.8%
- Others: 0.9%

**REVENUE BY PRODUCTS’ TYPE**

- Project & construction: 7,159
- Export: 1,964
- Large contracts: 7,159
- Machine-building only recurring products (domestic sales): 3,487

**Comments**

- 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
- Revenue was down due to a decline in revenue, generated by machine-building only recurring products

*Source: Company data, IFRS accounts*
**CONTACTS**

**Capital markets**
Phone  +7 (495) 730-66-01
ir@hms.ru
http://grouphms.com/shareholders_and_investors/

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

---

**HMS Hydraulic Machines & Systems Group Plc is listed on the London Stock Exchange (Main market, IOB):**

<table>
<thead>
<tr>
<th>Identifier</th>
<th>Number</th>
<th>Number of shares outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISIN</td>
<td>RegS: US40425X4079 144A: US40425X3089</td>
<td>117,163,427</td>
</tr>
<tr>
<td>Ratio</td>
<td>1 GDR : 5 Shares</td>
<td></td>
</tr>
<tr>
<td>Ticker</td>
<td>HMSG</td>
<td></td>
</tr>
<tr>
<td>Bloomberg</td>
<td>HMSG Li</td>
<td></td>
</tr>
<tr>
<td>Reuters</td>
<td>HMSGq.L</td>
<td></td>
</tr>
</tbody>
</table>
The information contained herein has been prepared using information available to HMS Group (“HMS” or “Group” or “Company”) at the time of preparation of the presentation. External or other factors may have impacted on the business of HMS Group and the content of this presentation, since its preparation. In addition all relevant information about HMS Group may not be included in this presentation. No representation or warranty, expressed or implied, is made as to the accuracy, completeness or reliability of the information.

Any forward looking information herein has been prepared on the basis of a number of assumptions which may prove to be incorrect. Forward looking statements, by the nature, involve risk and uncertainty and HMS Group cautions that actual results may differ materially from those expressed or implied in such statements. Reference should be made to the most recent Annual Report for a description of the major risk factors. This presentation should not be relied upon as a recommendation or forecast by HMS Group, which does not undertake an obligation to release any revision to these statements.

This presentation does not constitute or form part of any advertisement of securities, any offer or invitation to sell or issue or any solicitation of any offer to purchase or subscribe for, any shares in HMS Group, nor shall it or any part of it nor the fact of its presentation or distribution form the basis of, or be relied on in connection with, any contract or investment decision.
NOTES

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
- Working capital is calculated as Inventories plus Trade and other receivables, excluding Short-term loans issued, Bank deposits and Promissory notes receivable, plus Current income tax receivable minus Trade and other payables minus Short-term provisions for liabilities and charges minus Current income tax payable minus Other taxes payable
- 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.