Capital Markets

3 months 2019 IFRS results

Webcast presentation
Financial results
## Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>Revenue &amp; EBITDA performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
</tr>
<tr>
<td></td>
<td>3m 2019</td>
</tr>
<tr>
<td>Revenue</td>
<td>8,854</td>
</tr>
<tr>
<td>EBITDA</td>
<td>501</td>
</tr>
<tr>
<td>Gross profit</td>
<td>1,589</td>
</tr>
<tr>
<td>Operating loss/profit</td>
<td>-238</td>
</tr>
<tr>
<td>Loss/profit for the period</td>
<td>-495</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>5.7%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>17.9%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Net loss/income margin</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Total debt</td>
<td>18,845</td>
</tr>
<tr>
<td>Net debt</td>
<td>14,650</td>
</tr>
<tr>
<td>EBITDA LTM</td>
<td>6,042</td>
</tr>
<tr>
<td>Net debt to EBITDA LTM</td>
<td>2.42</td>
</tr>
</tbody>
</table>

Source: Company data, IFRS accounts
Revenue up 8% yoy to Rub 3.2 bn
- EBITDA and EBITDA margin down due to a larger share of recurring business, which has lower margins compared with large integrated contracts

Revenue +8% yoy EBITDA -22% yoy

Revenue up 56% yoy to Rub 2.9 bn and EBITDA was Rub 377 mn due to large contracts
- EBITDA margin 12.9%, higher than for 3 months 2018, due to a larger share of large contracts in the reporting period

Revenue +56% yoy EBITDA +279% yoy

Revenue and EBITDA down due to the lack of large contracts under execution combined with an unfavorable mix of recurring contracts with low margins

Revenue -53% yoy EBITDA na

Revenue down 12% yoy and EBITDA turned positive

Revenue -12% yoy EBITDA na
**Financial results**

## Expenses

### Cost of sales

**Cost of sales up 11% yoy to Rub 7.3 bn from Rub 6.5 bn**
- Materials and components up 19% yoy
- Depreciation & amortization up 27% yoy
- Labour costs & social taxes down 3% yoy

*Herein, Materials & components, Labour costs and Social taxes, Construction, design and engineering and other services of subcontractors 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

**Distribution & transportation costs down 5% yoy**
- Due to decrease in transportation expenses of 8% yoy

### General and administrative

**General & administrative costs grew by 6% yoy to Rub 1.3 bn**
- Due to increase in labor costs & social expenses by 8% yoy

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Source: Company data, IFRS accounts
Financial results

Cash flows

Working capital

WC: Rub 8.8 bn
-23% yoy

<table>
<thead>
<tr>
<th></th>
<th>2015 FY</th>
<th>2016 FY</th>
<th>2017 FY</th>
<th>3m 2018</th>
<th>2018 FY</th>
<th>3m 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital, Rub mn</td>
<td>8,813</td>
<td>9,962</td>
<td>7,820</td>
<td>11,535</td>
<td>9,130</td>
<td>8,843</td>
</tr>
<tr>
<td>WC / Revenue LTM, %</td>
<td>23.6%</td>
<td>24.0%</td>
<td>17.6%</td>
<td>26.6%</td>
<td>17.4%</td>
<td>16.8%</td>
</tr>
</tbody>
</table>

Capex and D&A ratio

Capex: Rub 506 mn, +52%
D&A: Rub 548 mn, +28%

Cash flows performance

<table>
<thead>
<tr>
<th>in millions of Rub</th>
<th>3m 2019</th>
<th>3m 2018</th>
<th>Chg, yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>(68)</td>
<td>(2,648)</td>
<td>na</td>
</tr>
<tr>
<td>Investing cash flow</td>
<td>(1,160)</td>
<td>(258)</td>
<td>na</td>
</tr>
<tr>
<td>Free cash flow (FCF)</td>
<td>(1,228)</td>
<td>(2,906)</td>
<td>na</td>
</tr>
<tr>
<td>Financing cash flow</td>
<td>(853)</td>
<td>574</td>
<td>na</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4,195</td>
<td>2,298</td>
<td>83%</td>
</tr>
</tbody>
</table>

Comments

- In February 2019, HMS Neftemash JSC, acquired a group of companies engaged in manufacturing of oil and gas equipment, located in Tumen, for a total consideration of Rub 700 mn, paid by cash. Outflow of cash and cash equivalents on acquisition was Rub 669 mn.

Source: Company data, IFRS accounts
### Financial results

#### Debt

**Debt portfolio structure by banks, 01.06.2019**

- **VTB Bank**: 29.4%
- **Sberbank**: 26.1%
- **RUB Bonds**: 15.4%
- **Raiffeisenbank**: 15%
- **UniCredit Bank**: 9.6%
- **FID**: 2%
- **Others**: 2.5%

**Comments**

- **3m 2019 Total debt increased to Rub 18.8 bn (+10% yoy)**
- **3m 2019 Net debt down to Rub 14.6 bn (-1% yoy)**
- **3m 2019 Net Debt-to-EBITDA LTM ratio up to 2.42x**
- **Long-term debt: 94% of total debt portfolio**
- **Borrowings in Rub: 97% of total debt portfolio**

**Debt repayment schedule, 01.06.2019**

- **Total debt**: Rub 19.5 bn

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

*FID – Fund of Industrial development of the Russian Federation, the*

**Herein, total debt includes only bank credits and loans, and doesn’t include finance lease
Backlog and Order intake for 3 months 2019

Backlog

Backlog grew by 11% yoy to Rub 45.3 bn
- Pumps up 23% yoy to Rub 19.3 bn
- Oil & gas equipment down 47% yoy to Rub 7.3 bn
- Compressors up 117% yoy to Rub 16.9 bn
- TGS down 49% yoy to Rub 1.9 bn

<table>
<thead>
<tr>
<th>in billions of Rub</th>
<th>3m 2018</th>
<th>Chg</th>
<th>3m 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Backlog, where</td>
<td>40.9</td>
<td>11%</td>
<td>45.3</td>
</tr>
<tr>
<td>Large integrated projects</td>
<td>15.9</td>
<td>-6%</td>
<td>15.0</td>
</tr>
<tr>
<td>Recurring business</td>
<td>24.9</td>
<td>22%</td>
<td>30.3</td>
</tr>
</tbody>
</table>

Order intake

Order intake grew by 10% yoy to Rub 11.5 bn
- Pumps up 31% yoy to Rub 5.6 bn
- Oil & gas equipment down 12% yoy to Rub 3.0 bn
- Compressors down 3% yoy to Rub 2.9 bn
- TGS added Rub 18 mn to its orders portfolio

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<th>3m 2018</th>
<th>Chg</th>
<th>3m 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Order intake, where</td>
<td>10.4</td>
<td>10%</td>
<td>11.5</td>
</tr>
<tr>
<td>Large integrated projects</td>
<td>2.8</td>
<td>-100%</td>
<td>0.0</td>
</tr>
<tr>
<td>Recurring business</td>
<td>7.6</td>
<td>51%</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Source: Company data, management accounts
HMS revenue structure

Top-7 clients for 3m 2018
- 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

Top-7 clients for 3m 2019
- NOVATEK became one of the main clients alongside Gazprom, Rosneft and Gazprom neft

Revenue by products
- In terms of products type, revenue increased due to recurring business
- A stable number of clients generates revenue from both large contracts and recurring business

Source: Company data, management accounts
HMS Hydraulic Machines & Systems Group Plc is listed on the London Stock Exchange (Main market, IOB)

Number of shares outstanding: 117,163,427

ISIN RegS: US40425X4079
144A: US40425X3089

Ratio 1 GDR : 5 Shares

Ticker HMSG

Bloomberg HMSG LI

Reuters HMSGq.L
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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.