Capital Markets

9 months 2019 IFRS results

Webcast presentation

17 December 2019

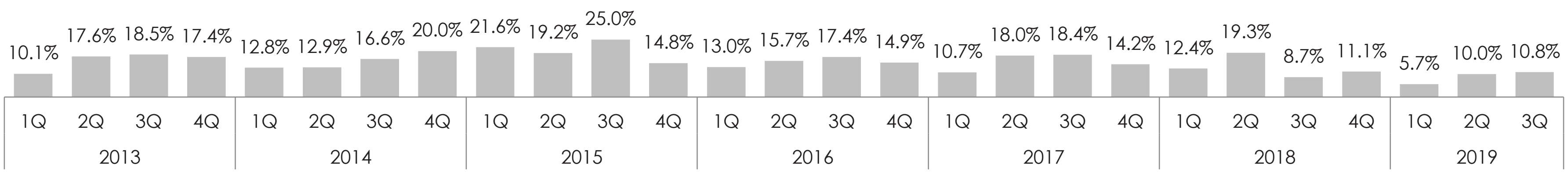
Financial results for 9 months 2019

Financial highlights

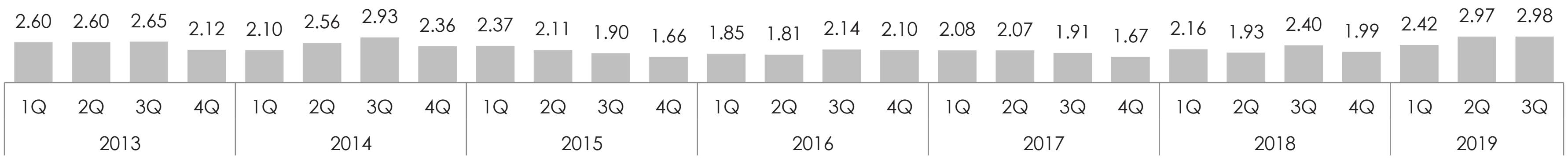
Profit for 3Q 2019 at Rub 369 million

in millions of Rub	9M 2019	9M 2018	chg, yoy	3Q 2019	2Q 2019	chg, qoq	3Q 2019	3Q 2018	chg, yoy
Revenue	36,681	31,862	15%	13,262	14,565	-9%	13,262	11,519	15%
EBITDA	3,392	4,319	-21%	1,439	1,452	-1%	1,439	999	44%
Gross profit	7,061	8,072	-13%	2,627	2,845	-8%	2,627	2,392	10%
Operating profit	1,590	2,701	-41%	983	846	16%	983	645	52%
Profit for the period	195	1,174	-83%	369	321	15%	369	213	73%
EBITDA margin	9.2%	13.6%	-431 bps	10.8%	10.0%	88 bps	10.8%	8.7%	217 bps
Gross margin	19.3%	25.3%	-608 bps	19.8%	19.5%	28 bps	19.8%	20.8%	-96 bps
Operating margin	4.3%	8.5%	-414 bps	7.4%	5.8%	160 bps	7.4%	5.6%	181 bps
Net income margin	0.5%	3.7%	-315 bps	2.8%	2.2%	57 bps	2.8%	1.8%	93 bps
Total debt	21,115	19,177	10%	21,115	19,988	6%	21,115	19,177	10%
Net debt	16,960	14,828	14%	16,960	15,628	9%	16,960	14,828	14%
EBITDA LTM	5,694	6,170	-8%	5,694	5,255	8%	5,694	6,170	-8%
Net debt to EBITDA LTM	2.98	2.40		2.98	2.97		2.98	2.40	

2013-2019 3Q EBITDA margin quarterly fluctuations



2013-2019 3Q Net debt/EBITDA LTM ratio quarterly fluctuations



Source: Company data, IFRS accounts

HMS demonstrates temporarily weak 2019 results due to a combination of several main factors

	Factor	Comments
1	**Change in a mix of large contracts portfolio with a larger portion of compressor contracts, that traditionally have lower margins**	HMS works on prospective profitable contracts ▪ Pumps & Compressors have a sustainable portfolio of large orders already ▪ OGEP portfolio of large orders is improving, and there is a potential of its further development based on a current pipeline of large projects
2	**Weak results of OGEP segment in recurring business**	▪ HMS had analyzed these factors, has taken actions to mitigate their impact on 2020 results
3	**Postponement of a number of OGEP signed and budgeted deliveries from 3-4Q'19 to the 2020 year due to customers' decisions**	▪ On the one hand, this factor will affect 2019 FY results, but on the other hand, it will positively influence 2020 FY financial results
4	**Arctic cascade, the first HMS project of compressors for liquefaction of natural gas**	▪ HMS had analyzed the project, has taken actions to prevent losses in future projects ▪ Penetration to a new and prospective LNG market
5	**Austerity measures time lag**	▪ It has taken several months from the implementation of austerity measures to the decrease of fixed costs

OGEP – herein and further, oil & gas equipment and projects

As a reaction to decline in EBITDA and net debt growth, HMS launched an aggressive cost-cutting program

The short-term austerity measures have been already implemented and realized.
In 2020 they will be partly complimented or replaced by long-term measures, that will influence positively 2020-2021 financial results

Short-term Austerity measures

Short-term austerity measures in 2H 2019:

- Temporarily decrease of wages

Short-term austerity measures in 2020:

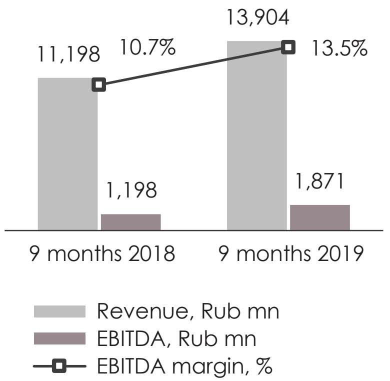
- Decrease of dividends or cancellation of their payment in 2020, which decision will depend on 2019 FY results and general situation with large contracts portfolio in the spring 2020

Long-term Austerity measures

- Rightsizing (personnel optimization)
- Minimization of operating costs including optimization of procurement processes and improvement of products' design solutions
- Capex reduction to Rub 1.5 bn pa
- Strengthening of control over working capital
- Analysis of non-performing assets for further decision making re business restructuring

Segments overview

Pumps

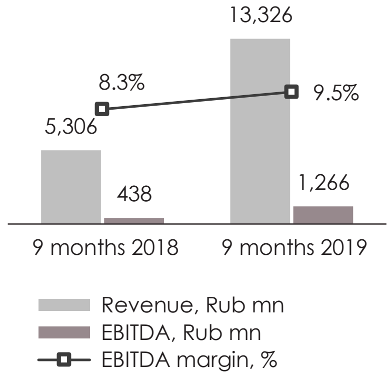


Revenue +24% yoy

EBITDA +56% yoy

- Revenue grew 24% yoy to Rub 13.9 bn and EBITDA up 56% yoy to Rub 1.9 bn based both on recurring business and large contracts
- EBITDA margin increased to 13.5% mainly due to a large share of large contracts in pumps order portfolio

Compressors

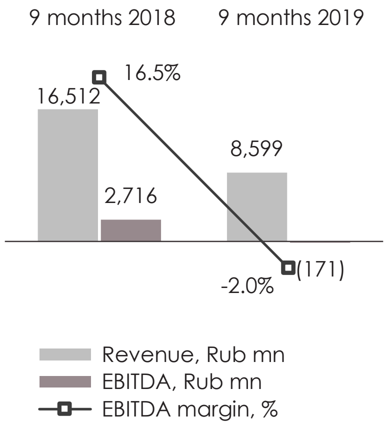


Revenue +151% yoy

EBITDA +189% yoy

- Revenue up to Rub 13.3 bn, by 151% yoy, due to a growth both in recurring business and large contracts
- EBITDA grew 189% yoy to Rub 1.3 bn
- EBITDA margin was 9.5% vs. 8.3% for the compared period

Oil & gas equipment

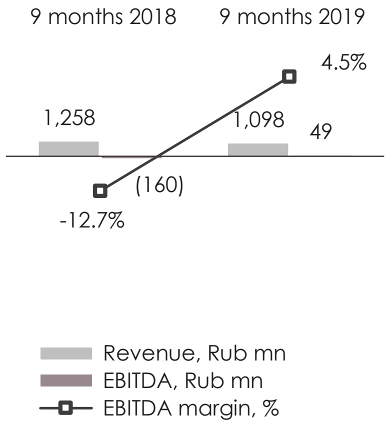


Revenue -48% yoy

EBITDA -106% yoy

- Revenue and EBITDA down due to an unfavorable combination of several factors, including the lack of large contracts under execution, a mix of recurring contracts with low margins, and an austerity measures time lag, which took several months from their implementation to their results

Construction



Revenue -13% yoy

EBITDA na

- Revenue down 13% yoy and EBITDA up to Rub 49 mn

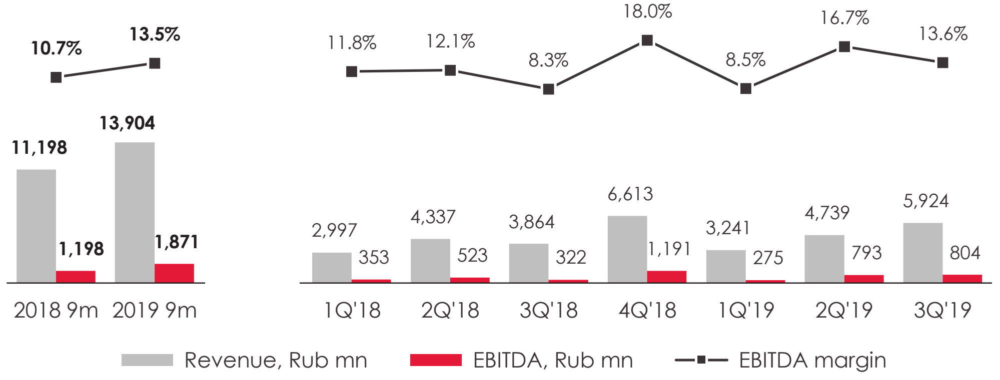
Source: Company data, IFRS accounts

Pumps revenue grew 24% to Rub 13.9 bn, and EBITDA grew 56% to Rub 1.9 bn

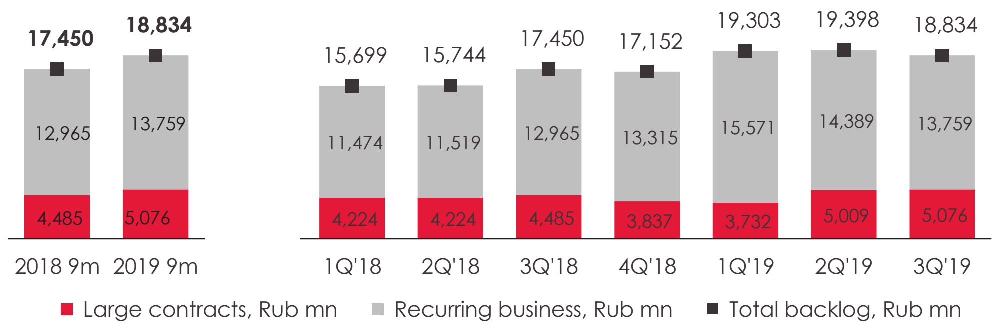
Growing backlog is a positive factor for 2019-2020 financial results

- Revenue grew 24% yoy to Rub 13.9 bn and EBITDA up 56% yoy to Rub 1.9 bn based both on recurring business and large contracts
- EBITDA margin increased to 13.5% due to the combination of several factors, including the cost-optimization program and a higher share of large contracts in pumps order portfolio
- Backlog is growing mainly due to orders for pumps for nuclear power stations
- There are two low-margin production facilities in the pumps business segment. Their negative effect has been already reflected in HMS financial results. Currently, the company is working on a strategy of their optimization

Revenue grew to Rub 13.9 bn (+24% yoy), and EBITDA was up to Rub 1.9 bn (+56% yoy)



Pumps backlog grew to Rub 18.8 bn by 8% yoy

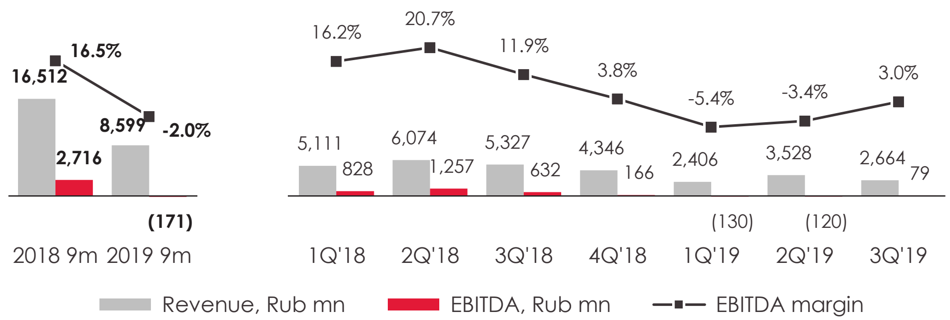


Source: Company data, IFRS accounts, management accounts

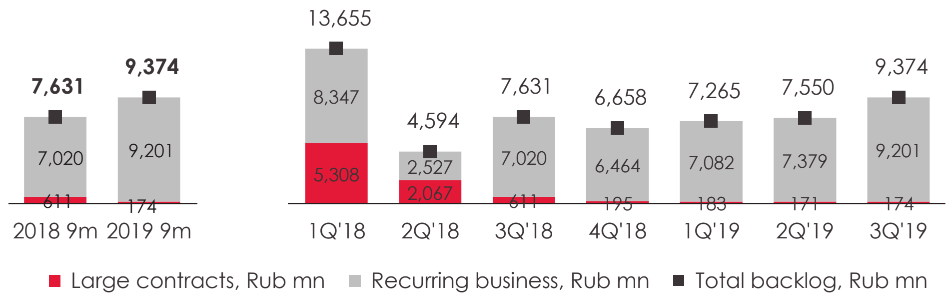
Weak performance of OGEP and postponement of deliveries affected HMS results

HMS cost-cutting program, implemented in 1H 2019, influenced OGEP results and returned EBITDA to a positive territory

Results of 3Q 2019 as well as backlog dynamics demonstrate recovery of OGEP profitability



OGEP backlog in mid-2018 declined both in large contracts and regular business, that affected segment's results of 2019



HMS Neftemash was the main reason of weak OGEP results, but it is recovering thx to austerity measures

- OGEP losses were connected with HMS Neftemash, that specializes in EP projects and needs infrastructure and engineering resources
- After a decline of large projects backlog in mid-2018, HMS Neftemash didn't manage to cut quickly its fixed costs. Also it didn't manage to increase backlog of profitable recurring business to replace large contracts. The combination of the above factors resulted in a decrease of revenue and margins in the period from 4Q' 2018 to 2Q 2019. As a result, recurring business generated less EBITDA than expected
- HMS Group has changed management at HMS Neftemash to speed up the costs reduction
- Implemented austerity measures resulted in the recovery of OGEP financial results
- By customers' requests, HMS Neftemash postponed deliveries from 3-4Q 2019 to 2020, worth Rub 0.4 bn EBITDA, that should positively influence 1H 2020
- **4Q 2019 is expected to show the further improvement of financial results of both HMS Neftemash and OGEP**

Neftemash generated less losses in 3Q 2019

HMS Neftemash,	2018				2019		
Rub mn	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**
Revenue	4,228	4,894	4,150	2,732	1,022	2,163	1,359
EBITDA	636	1,109	439	(41)	(353)	(221)	(32)
EBITDA margin	15.0%	22.7%	10.6%	(1.5)%	(34.5)%	(10.2)%	(2.3)%

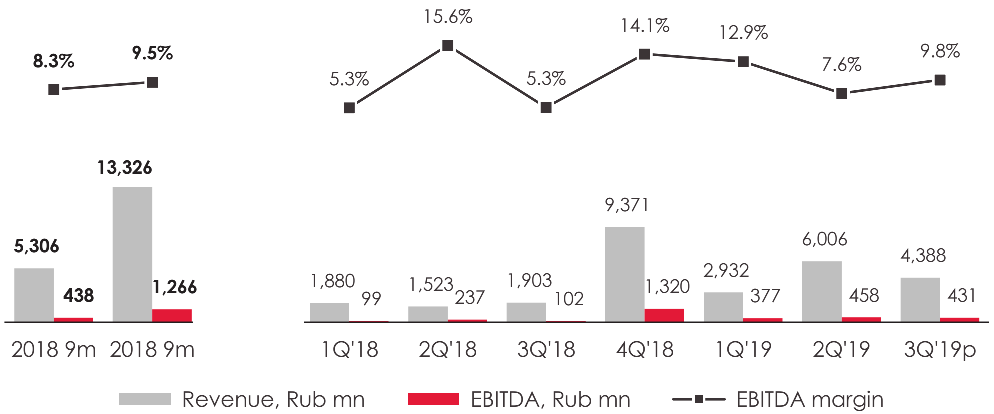
Source: Company data, IFRS accounts, management accounts

Compressors shows good results, though the Arctic cascade affected its profitability

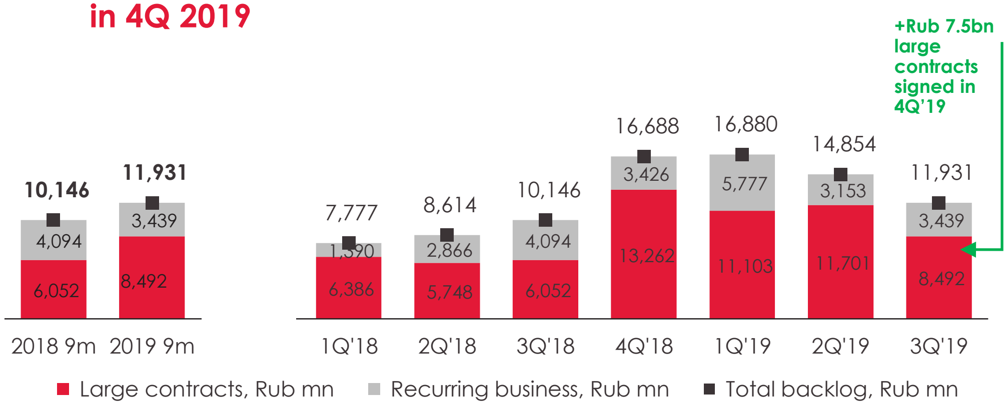
Compressors profitability up to 9.5%

- Revenue increased to Rub 13.3 bn, up 151% yoy, due to growth both in recurring business and large contracts
- EBITDA grew to Rub 1.3 bn, up189% yoy
- EBITDA margin was 9.5% vs. 8.3% for the compared period
- In compressors, a turbine is one of the main cost center. As HMS doesn’t produce turbines, share of in-house production is lower. Therefore, compressor large contracts profitability is lower compared with pumps and OGEP contracts
- Also, the pilot Arctic Cascade project generated losses that affected the business segment’s margins
- While the participation in the project incurred losses for the company, due to the fact that HMS has developed competencies in the new area of equipment for liquefaction of natural gas, the project’s successful execution has given the access to the new and prospective LNG market in Russia as a whole, not only to PAO NOVATEK

Revenue grew to Rub 13.3 bn (+151% yoy), and EBITDA up to Rub 1.3 bn (+189% yoy)



Compressors signed large contracts worth Rub 7.5 bn in 4Q 2019



HMS costs & expenses structure

Cost of sales up by 25% yoy

Cost of sales increased due to two factors:

- contracts portfolio consists of less profitable contracts compared with last year, and
- large compressor contracts have a higher share of outsourced components in their cost of sales

	Change	Expenses, Rub mn 9 months 2019	Expenses, Rub mn 9 months 2018	Share of revenue 9 months 2019	Share of revenue 9 months 2018
Cost of sales, where:	+25%	29,620	23,790	80.7%	74.7%
Materials and components	+36%	20,288	14,864	55.3%	46.7%
Labour costs & Social taxes	-2%	5,134	5,229	14.0%	16.4%
Depreciation and amortization	+27%	1,437	1,131	3.9%	3.6%
Other	+8%	2,760	2,567	7.5%	8.1%

Distribution & transportation expenses decreased as a share of revenue to 3.8%

- As a share of revenue, distribution & transportation decreased to 3.8%
- In absolute numbers, distribution and transportation expenses grew by 2% yoy

	Change	Expenses, Rub mn 9 months 2019	Expenses, Rub mn 9 months 2018	Share of revenue 9 months 2019	Share of revenue 9 months 2018
Distribution & transportation, where:	+2%	1,402	1,378	3.8%	4.3%
Labour costs & Social taxes	-2%	545	554	1.5%	1.7%
Transportation expenses	+16%	420	364	1.1%	1.1%
Insurance	-49%	85	167	0.2%	0.5%
Other	20%	352	293	1.0%	0.9%

General & administrative costs decreased as a share of revenue to 10.9%

- GA costs decreased as a share of revenue to 10.9% from 12.2% though in absolute numbers grew by 3% yoy to Rub 4.0 bn
- Banks services and depreciation & amortization were the main drivers of general & administrative costs growth

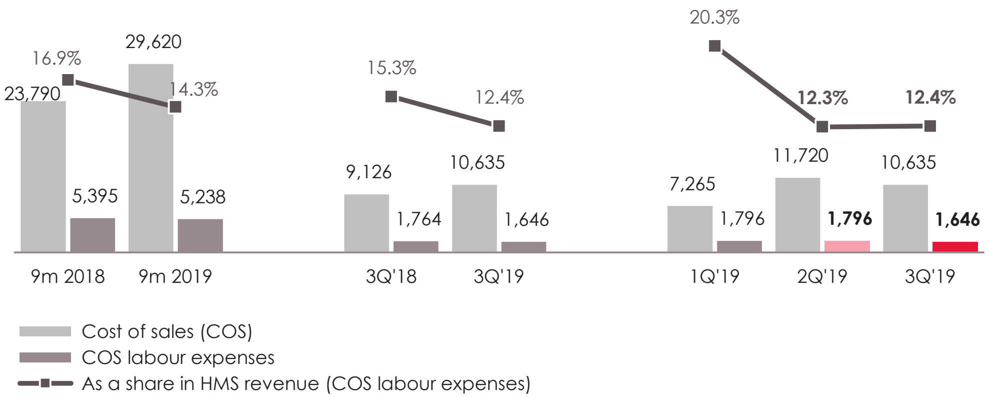
	Change	Expenses, Rub mn 9 months 2019	Expenses, Rub mn 9 months 2018	Share of revenue 9 months 2019	Share of revenue 9 months 2018
General & administrative, where:	+3%	3,981	3,876	10.9%	12.2%
Labour costs & Social taxes	+0.4%	2,546	2,536	6.9%	8.0%
Bank services	+41%	267	189	0.7%	0.6%
Depreciation & amortisation	+40%	235	168	0.6%	0.5%
Other	-5%	933	982	2.5%	3.1%

Source: company data, IFRS accounts

Note: 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

Labour expenses decreased in 3Q 2019, resulting from the implemented cost-optimization program

Cost of sales

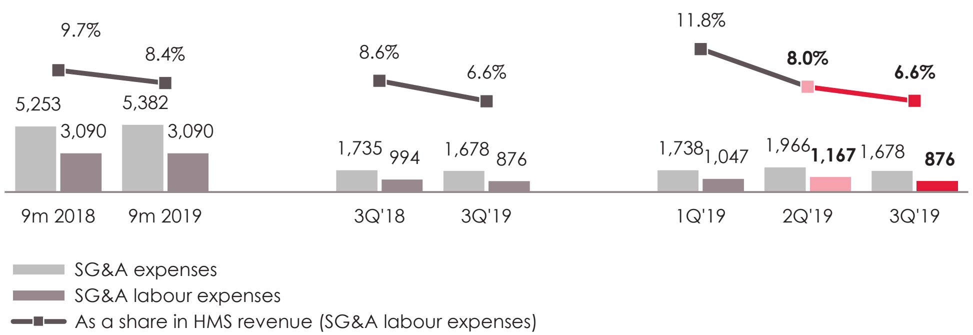


Cost of sales labour expenses slightly grew as a share in revenue in 3Q 2019

COS labour expenses were slightly up to 12.4% share in revenue in 3Q 2019, compared with 12.3% in 2Q 2019

- 3Q 2019 orders under execution had a higher labour intensity, compared with 2Q 2019, due to a change in a mix of contracts

SG&A expenses (Distribution & transportation + General & admin)



The cost-optimization program influenced the decrease of SG&A labour expenses

Their share in revenue was down to 6.6% in 3Q 2019, compared with 8.0% in 2Q 2019, thus increased HMS profitability

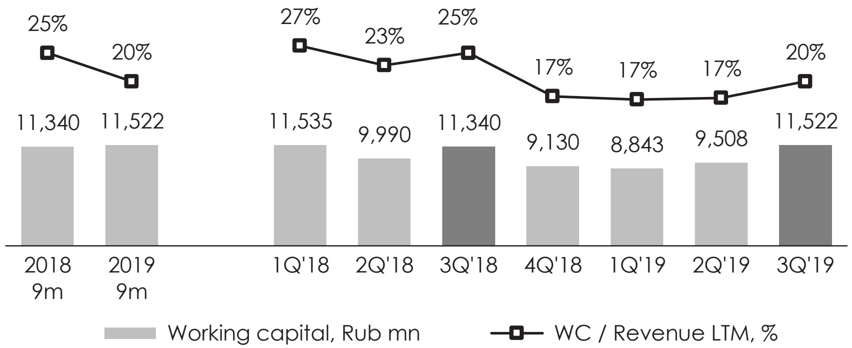
Herein, Labour expenses mean the total sum of labour costs and social taxes
Source: Company data, IFRS accounts

Cash flow analysis

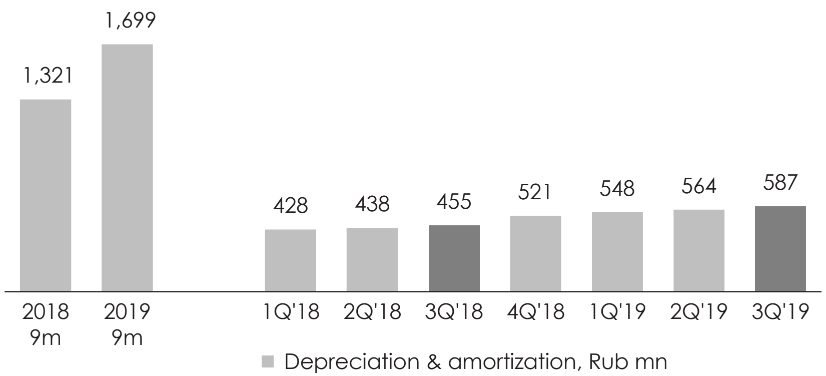
Free cash flow was down due to the acquisition and working capital growth

Cash flow performance, Rub mn	9 months 2019	9 months 2018
Operating CF	(812)	(620)
Investing CF	(1,811)	(1,374)
Acquisition	*(670)*	-
Free CF	**(2,623)**	**(1,993)**
Dividends	(1,161)	(1,384)

9m 2019 Working capital up by minor 2% yoy, and down to 20% as a share of revenue LTM

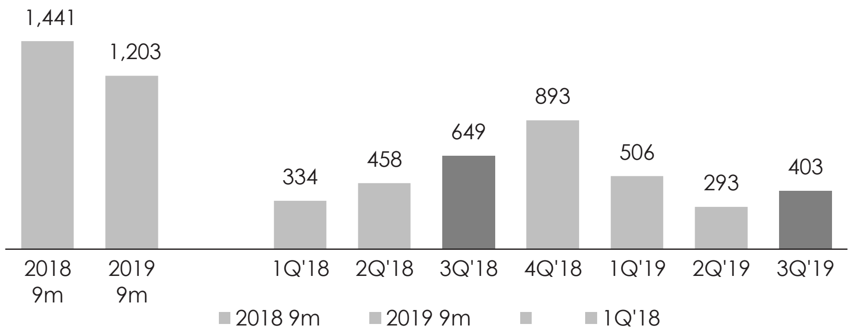


9m 2019 Depreciation & amortization up 29% yoy to Rub 1.7 bn due to the assets acquisition in 4Q'18-1Q'19



9m 2019 Capex down 17% yoy to Rub 1.2 bn

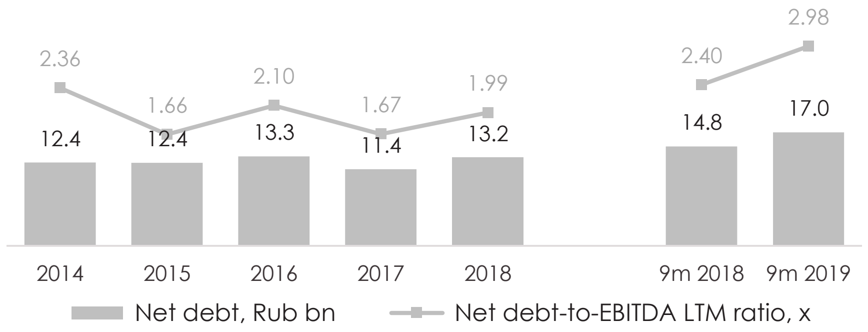
Capital expenditures in 2Q and 3Q 2019 were down due to the cost-optimization program



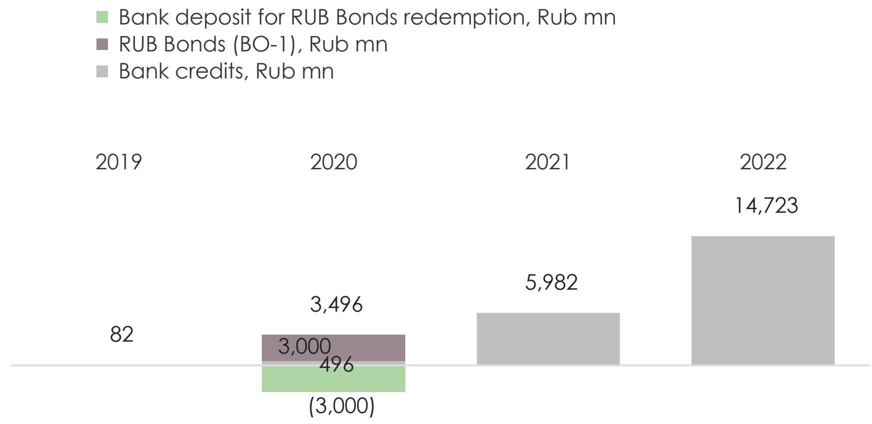
Source: Company data, IFRS accounts

Debt analysis

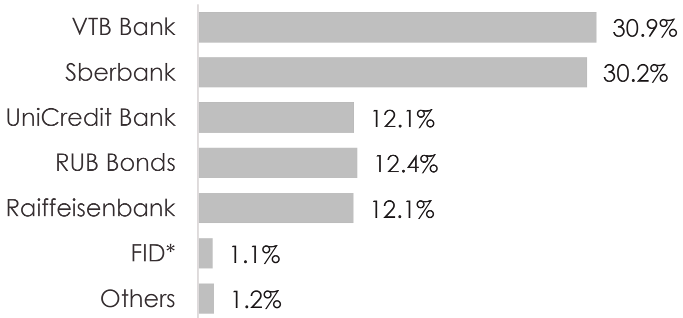
Net debt-to-EBITDA ratio at 2.98x as of 01 Oct 2019



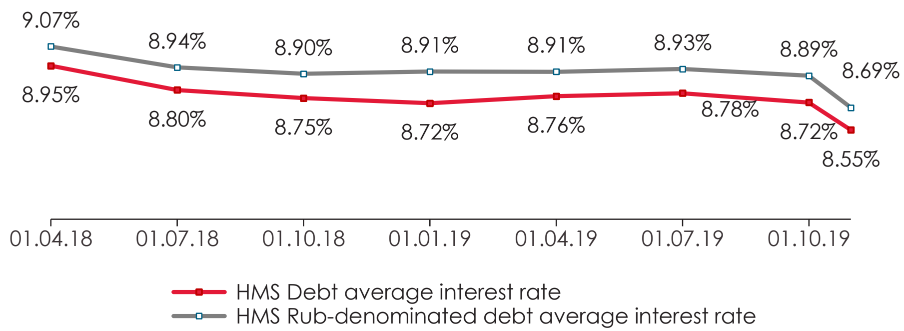
Recent refinancing moved the most repayments to the 2022 year



Well-balanced portfolio in terms of banks' share distribution

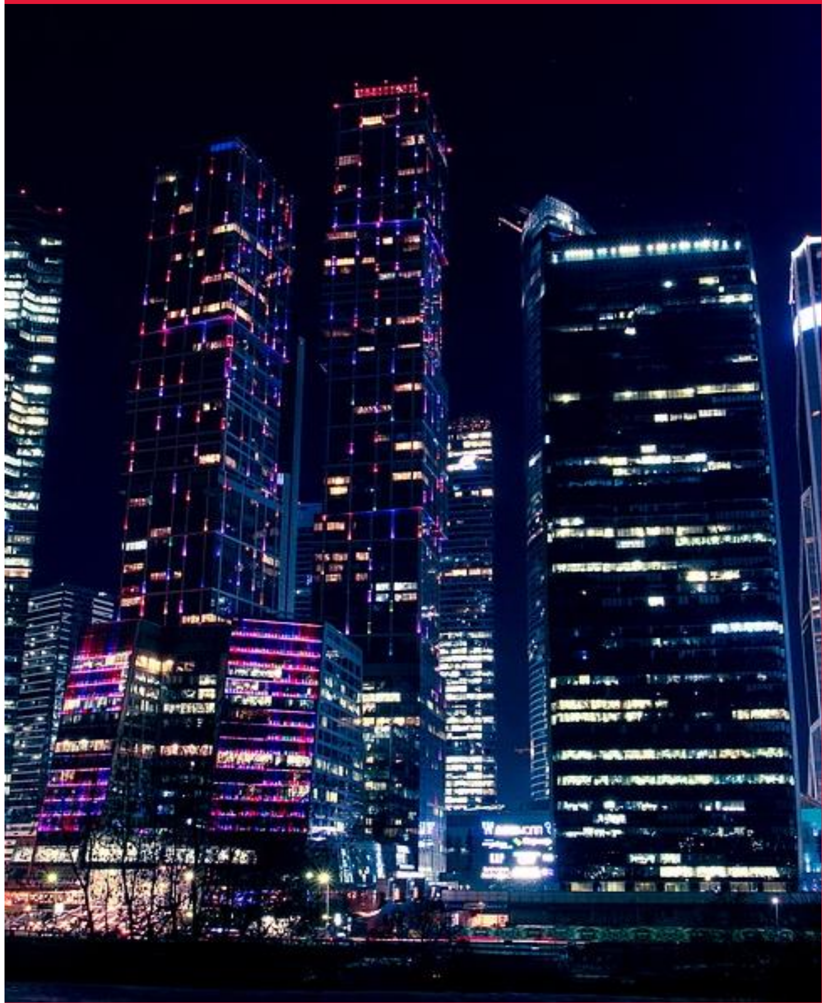


Average interest rate was decreased to 8.55% pa, as a result of refinancing



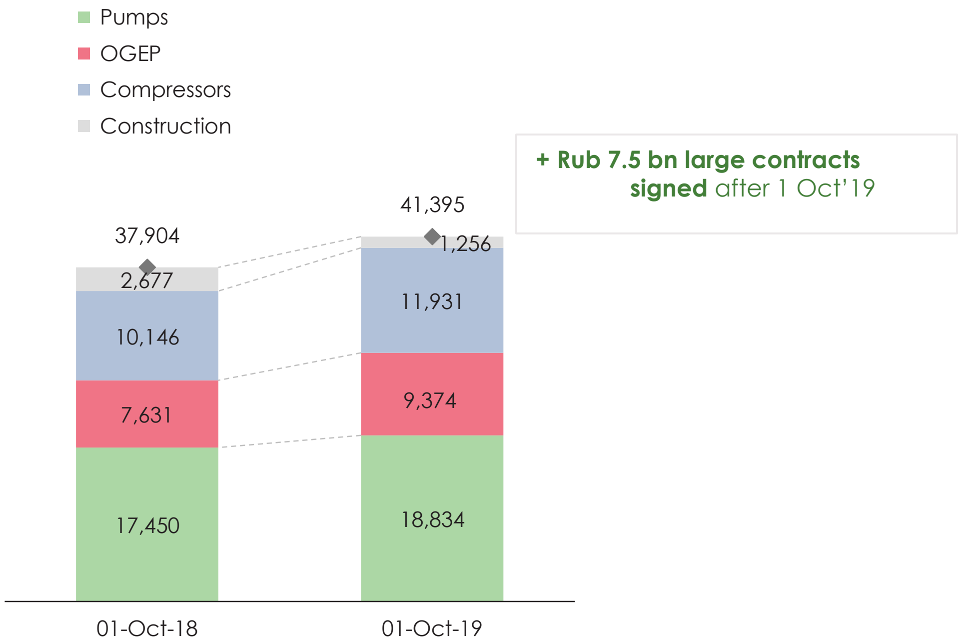
Source: Company data. IFRS accounts, management accounts as of today
* FID – Fund of Industrial development of the Russian Federation, the

Business & Outlook



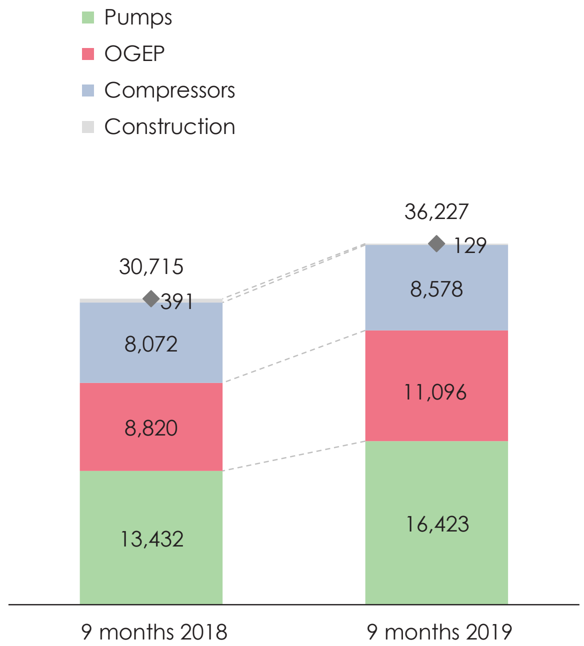
HMS has an improved backlog and a promising list of prospective projects

In addition to Rub 13.7 bn large contracts backlog, HMS signed Rub 7.5 bn more contracts in 4Q'19



	1 Oct 2018	*Chg*	1 Oct 2019
Total in Rub bn, where:	**37.9**	***9%***	**41.4**
Large projects	**11.1**	***23%***	**13.7**
Recurring business	26.8	*3%*	27.7

Order intake grew to Rub 36.2 bn, up 18% yoy



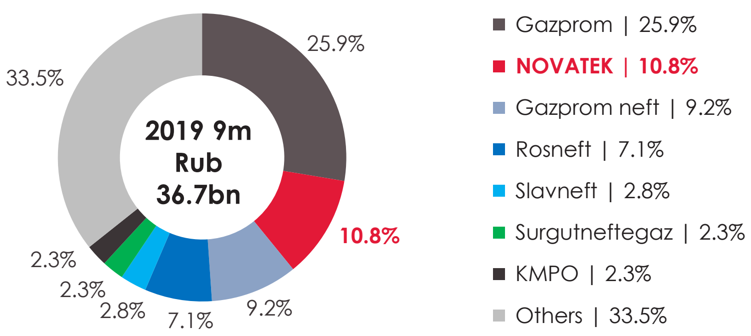
	9m 2018	*Chg*	9m 2019
Total in Rub bn, where:	**30.7**	***18%***	**36.2**
Large projects	**4.5**	***81%***	**8.2**
Recurring business	26.2	*7%*	28.1

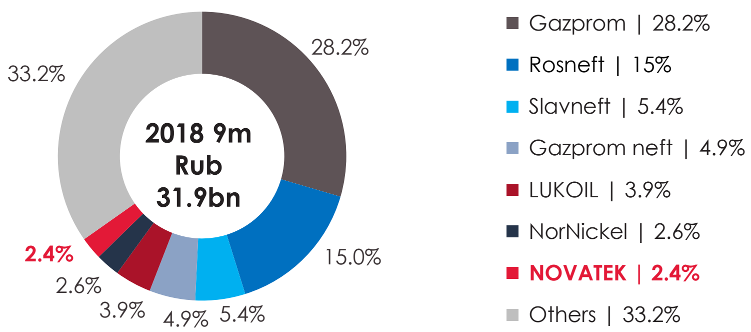
Source: Company data, management accounts

Revenue structure by clients and contracts type

NOVATEK share grew to 10.8% from 2.4% last year, and it is the second largest HMS client after Gazprom

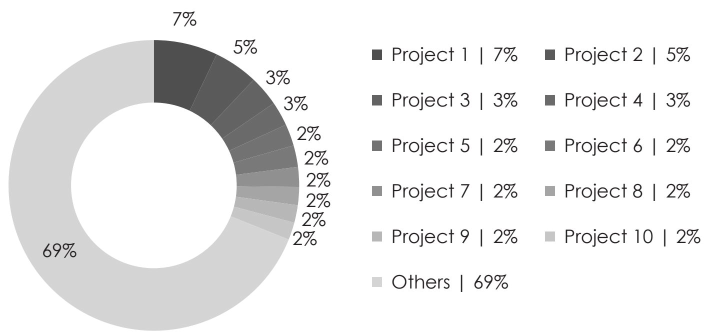
HMS widened its base of the largest clients





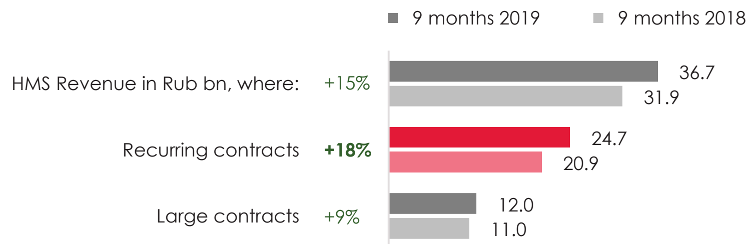
Share of revenue, generated by the largest contract, does not exceed 10%

HMS Group doesn't depend on the one only contract: 10 largest projects generated only 31% of HMS revenue for 9 months 2019



Recurring business generated the most of HMS revenue

Revenue from recurring business grew to Rub 24.7 bn, by 18% yoy



Source: Company data, IFRS accounts, 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

Capital markets

7 Chayanova str., Moscow 125047, Russia

Phone: +7 (495) 730-66-01

Email: ir@hms.ru

grouphms.com/shareholders_and_investors/

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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) adjusted for other operating income/expenses, depreciation and amortisation, amortisation of government grants, 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, ECL allowance and provision for impairment of trade and other receivables and other financial assets, 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 **Long-term lease liabilities (non-current)** plus **Short-term borrowings** plus **Short-term lease liabilities (current)**
- **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