HMS GROUP

Capital Markets

2019FY IFRS results

Investor presentation

April 24, 2020

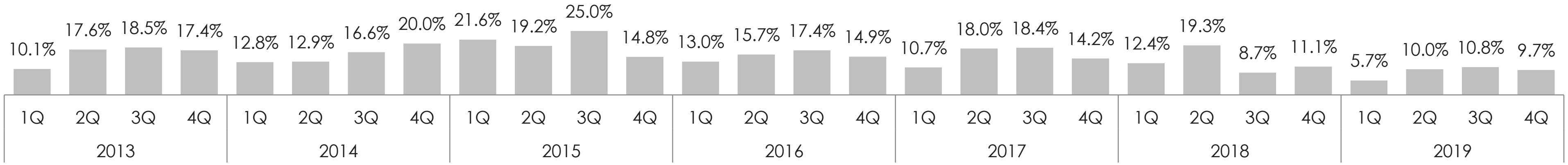
Financial results for 2019FY

Financial highlights

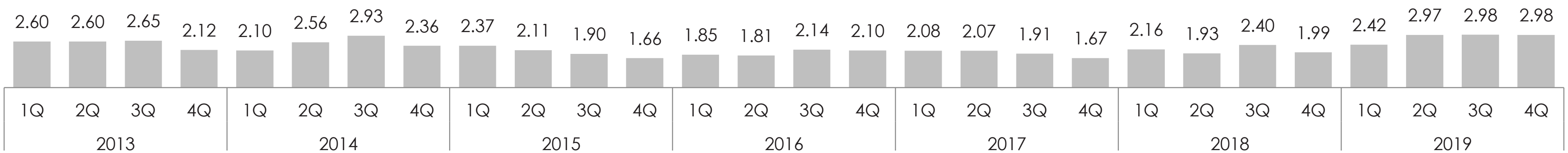
Revenue for 2019FY at Rub 51.4 billion

in millions of Rub	**2019FY**	**2018FY**	chg, yoy	**4Q 2019**	**4Q 2018**	chg, yoy	**4Q 2019**	**3Q 2019**	chg, qoq
Revenue	51,413	52,619	-2%	14,732	20,757	-29%	14,732	13,262	11%
EBITDA	4,824	6,621	-27%	1,432	2,302	-38%	1,432	1,439	-1%
Gross profit	9,609	12,002	-20%	2,548	3,930	-35%	2,548	2,627	-3%
Operating profit	2,057	4,200	-51%	467	1,499	-69%	467	983	-52%
Profit for the year/period	151	1,946	-92%	(45)	772	-106%	(45)	369	-112%
EBITDA margin	9.4%	12.6%	-320 bps	9.7%	11.1%	-137 bps	9.7%	10.8%	-113 bps
Gross margin	18.7%	22.8%	-412 bps	17.3%	18.9%	-164 bps	17.3%	19.8%	-251 bps
Operating margin	4.0%	8.0%	-398 bps	3.2%	7.2%	-405 bps	3.2%	7.4%	-424 bps
Net income margin	0.3%	3.7%	-341 bps	-0.3%	3.7%	-403 bps	-0.3%	2.8%	-309 bps
Total debt	24,321	19,458	25%	24,321	19,458	25%	24,321	21,115	15%
Net debt	14,369	13,163	9%	14,369	13,163	9%	14,369	16,960	-15%
EBITDA LTM	4,824	6,621	-27%	4,824	6,621	-27%	4,824	5,694	-15%
Net debt to EBITDA LTM	2.98	1.99		2.98	1.99		2.98	2.98	

2013-2019 EBITDA margin quarterly fluctuations



2013-2019 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

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 affected 2019FY results, but on the other hand, it will positively influence 2020FY 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

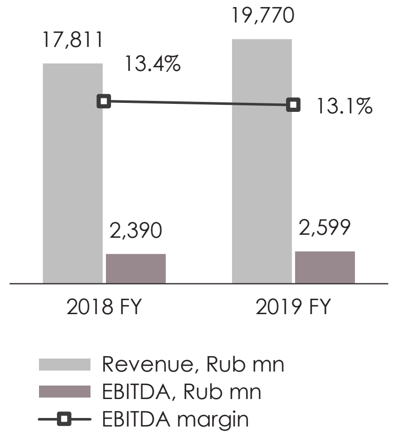
As a reaction to decline in EBITDA and net debt growth, HMS launched an aggressive cost-cutting program

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

Measures	Description	Status
Short-term Austerity measures	Short-term austerity measures in 2H 2019 : ▪ Temporarily decrease of wages	**done**
	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	in process
Long-term Austerity measures	▪ Rightsizing (personnel optimization)	in process
	▪ Minimization of operating costs including optimization of procurement processes and improvement of products' design solutions	in process
	▪ Capex reduction to Rub 1.5 bn pa	**done**
	▪ Strengthening of control over working capital	in process
	▪ Analysis of non-performing assets for further decision making re business restructuring	in process

Segments overview

Pumps

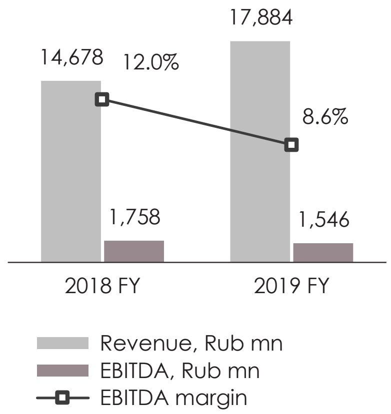


Revenue +11% yoy

EBITDA +9% yoy

- Revenue grew 11% yoy to Rub 19.8 bn and EBITDA up 9% yoy to Rub 2.6 bn based both on recurring business and large contracts
- EBITDA margin slightly declined to 13.1%

Compressors

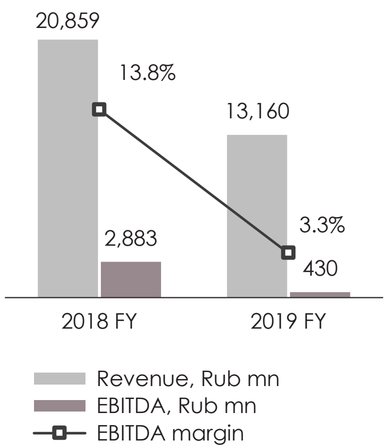


Revenue +22% yoy

EBITDA -12% yoy

- Revenue up to Rub 17.9 bn, by 22% yoy, based on both recurring business and large contracts
- EBITDA was down by 12% yoy to Rub 1.5 bn
- EBITDA margin was 8.6% vs. 12% for the compared period

Oil & gas equipment

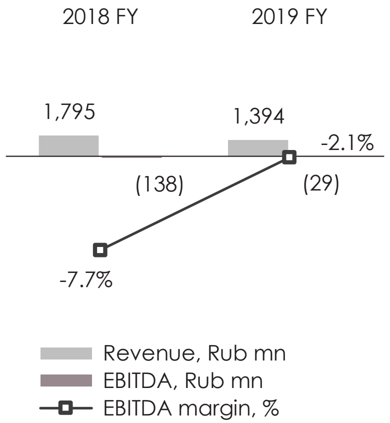


Revenue -37% yoy

EBITDA -85% 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 -22% yoy

EBITDA na

- Revenue down 22% yoy

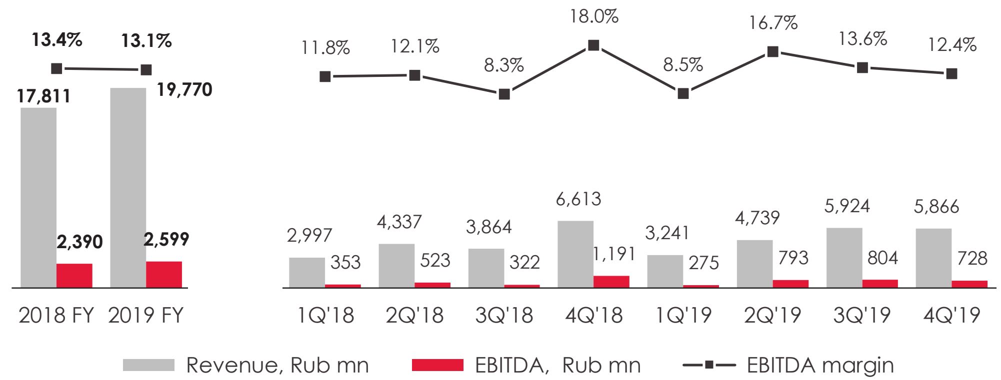
Source: Company data, IFRS accounts

Pumps revenue grew 11% to Rub 19.8 bn, and EBITDA grew 9% to Rub 2.6 bn

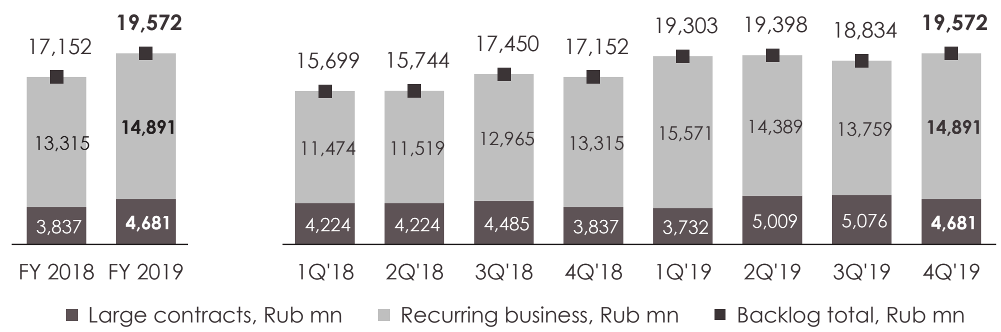
Pumps' backlog reached Rub 19.6 bn, the 2 years maximum level, which is the positive factor for the 2020 year financial results

- Revenue grew by 11% yoy to Rub 19.8 bn based on both recurring business and large contracts
- EBITDA was up 9% yoy to Rub 2.6 bn based on recurring business only
- EBITDA margin stood at 13.1%
- Pumps backlog is also growing in both recurring business and large contracts, where the latter consist mainly of orders for nuclear power pumps and pumps for oil processing plants

Revenue grew to Rub 19.8 bn (+11% yoy), and EBITDA was up to Rub 2.6 bn (+9% yoy)



Pumps backlog reached 2yrs maximum at Rub 19.6 bn

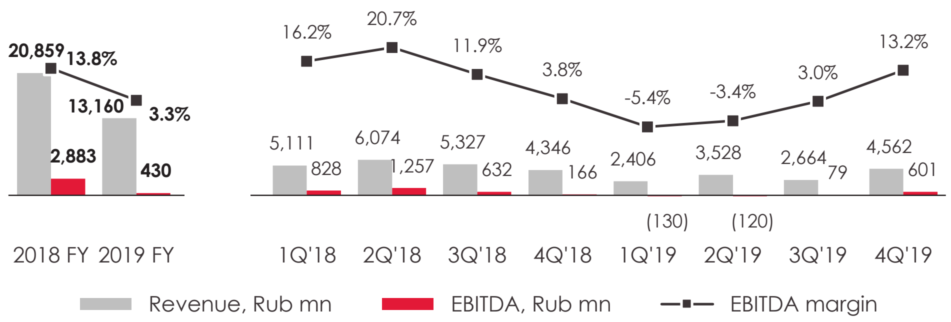


Source: Company data, IFRS accounts, management accounts

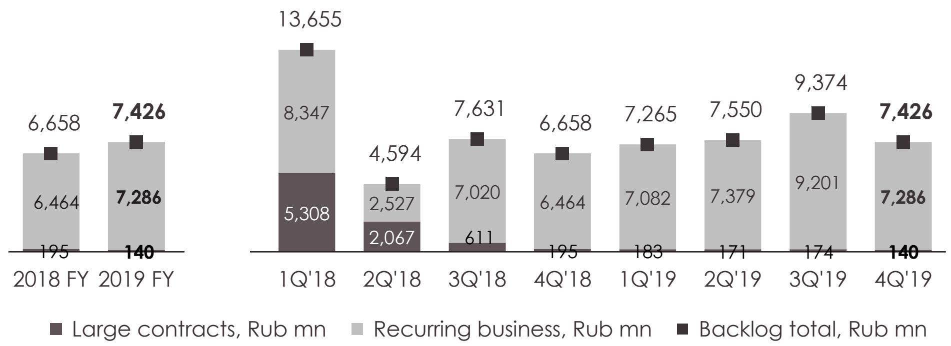
OGEP delivered weak results for FY 2019, but demonstrated recovery to continue in 2020

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

Financial results of 2H 2019 as well as backlog dynamics demonstrate the recovery of OGEP profitability



OGEP backlog in mid-2018 declined in both large contracts and regular business, that affected the 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
- 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 demonstrated the improvement of financial results of both HMS Neftemash and OGEP**

Neftemash generated less losses in 3Q and recovered in 4Q

HMS Neftemash,	2018				2019			
Rub mn	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Revenue gross	4,228	4,894	4,150	2,732	1,022	2,163	1,359	2,844
EBITDA	636	1,109	439	(41)	(353)	(221)	(32)	338
EBITDA margin	15.0%	22.7%	10.6%	(1.5)%	(34.5)%	(10.2)%	(2.3)%	11.9%

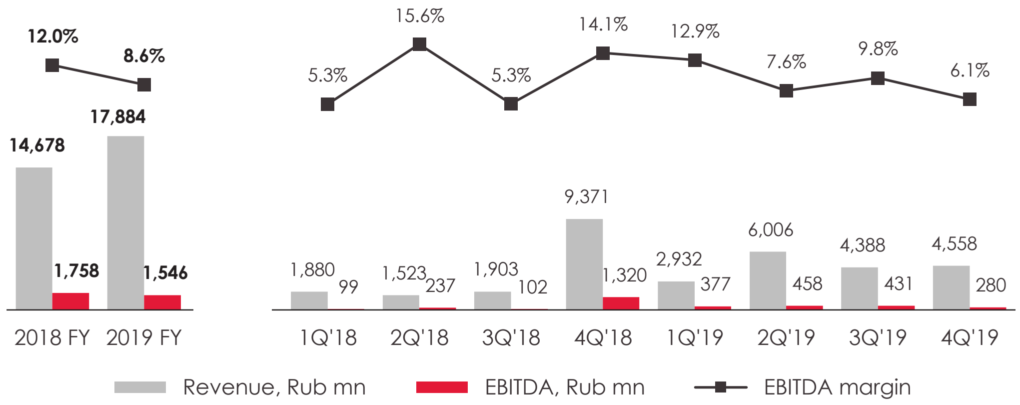
Source: Company data, IFRS accounts, management accounts

Compressors revenue grew by 22%, but the Arctic cascade affected profitability

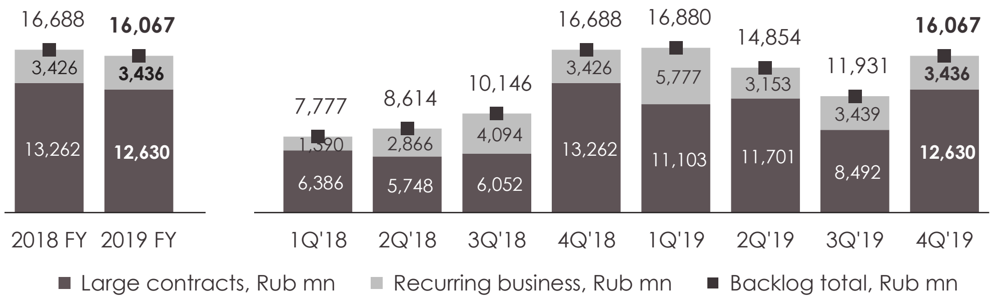
Compressors continued to deliver good results

- Revenue increased to Rub 17.9 bn, up 22% yoy, due to growth in both recurring business and large contracts
- EBITDA was down 12% yoy to Rub 1.5 bn mainly because of losses generated by the pilot Arctic cascade project
- EBITDA margin was 8.6% vs. 12.0% in 2018
- 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
- 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 17.9 bn (+22% yoy), and EBITDA down to Rub 1.5 bn (-12% yoy)



Compressors backlog's size is at a high level



Source: Company data, IFRS accounts, management accounts

HMS costs & expenses structure

Cost of sales* up by 3% yoy

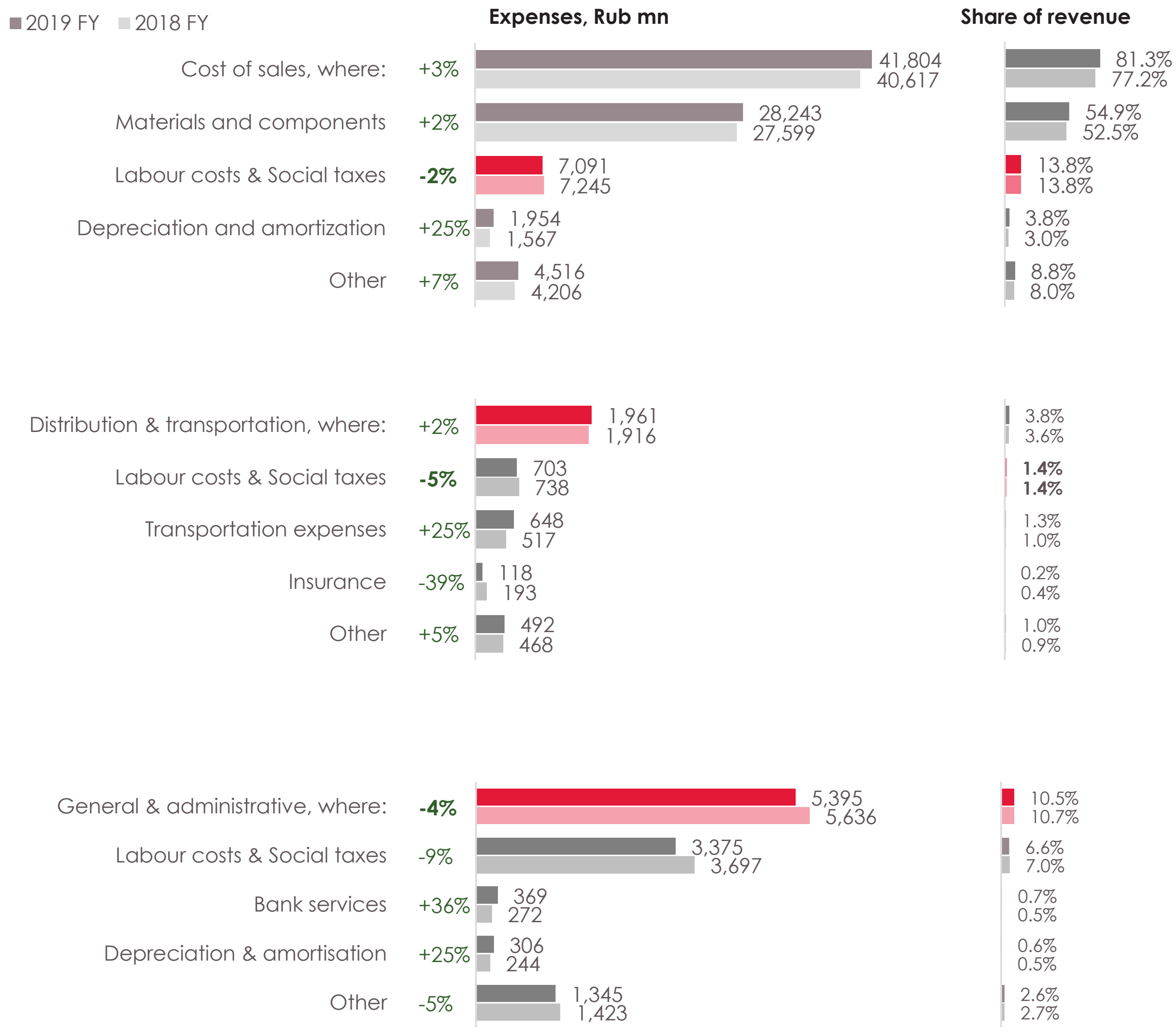
- Cost of sales increased because of the growth in materials and components (+2% yoy)

Distribution & transportation expenses up by 2% yoy due to transportation expenses

- As a share of revenue, distribution & transportation grew to 3.8%
- Labour costs & social taxes decreased by 5% yoy

General & administrative costs was down by 4% yoy

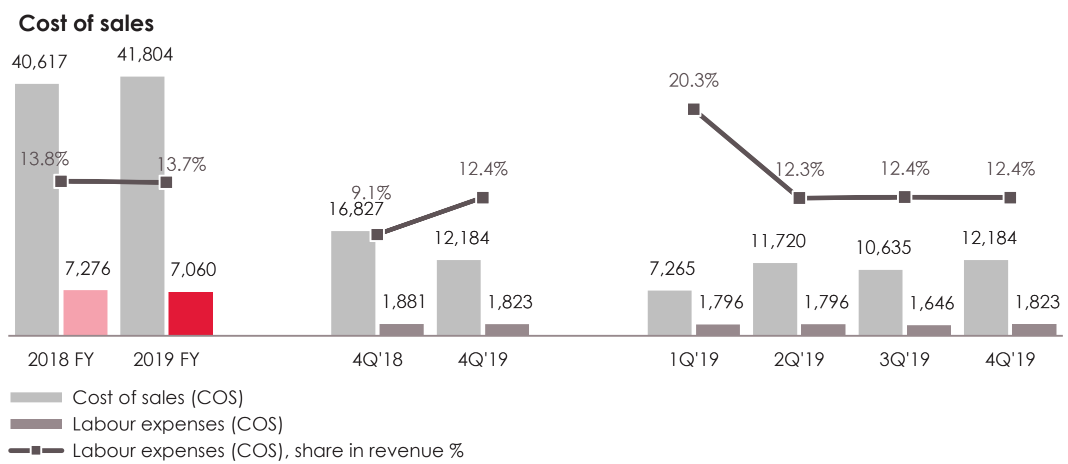
- GA costs decreased due to lower labour costs and social taxes (-9% yoy)
- Bank services grew due to fees paid for bank guarantees related with large contracts execution



Source: company data, IFRS accounts

* Herein, in Cost of sales analysis, 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

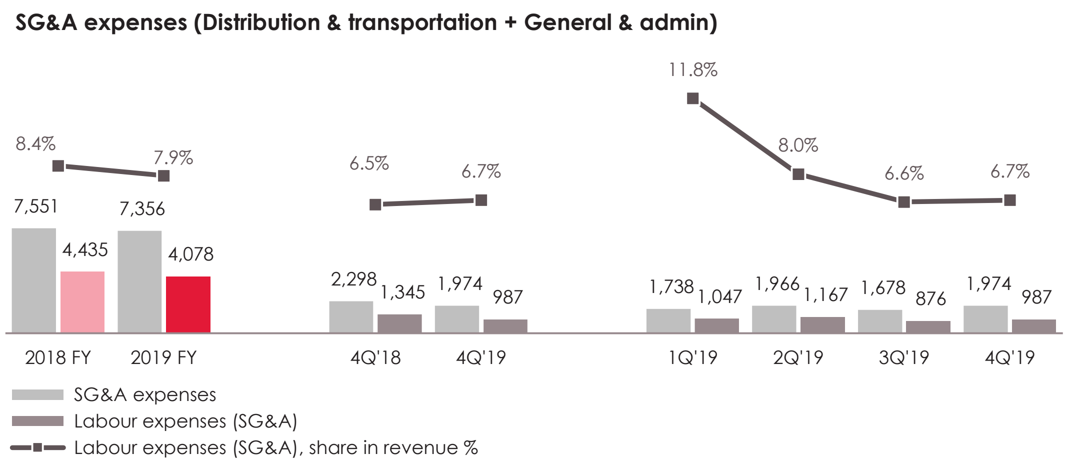
Labour expenses decreased in 2019, resulting from the implemented cost-optimization program



Labour expenses in Cost of sales was down 3% yoy

Labour expenses in Cost of sales was down in absolute figures and as a share of revenue as well

- 2019FY labour costs was down by 3% yoy (Rub 216 mn) due to the cost-cutting program implemented in 1H 2019
- 4Q 2019 labour costs grew qoq due to a higher capacity utilization



Labour expenses in SG&A declined 8% yoy due to the cost-optimization program

Their share in revenue was down to 7.9%, compared with 8.4% in 2018

- 2019FY labour costs, related to sales, general and administrative expenses, was down by 8% yoy (Rub 357 mn) also due to the cost-cutting program implemented in 1H 2019

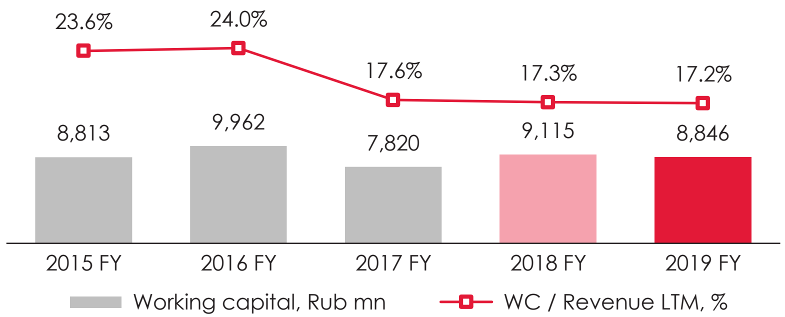
Herein, Labour expenses mean the total sum of labour costs and social taxes
Source: Company data, IFRS accounts

Cash flow analysis

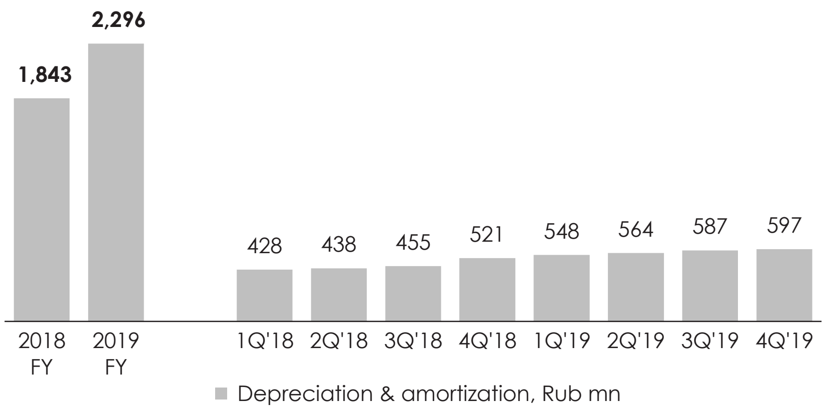
Free cash flow was up despite the acquisition due to the optimization of working capital

Cash flow performance, Rub mn	2019FY	2018FY
Operating CF	2,163	1,956
Investing CF	(2,140)	(2,096)
Acquisition	*(670)*	*112*
Free CF	**23**	**(139)**
Dividends	(1,165)	(1,385)

Working capital was down by 3% yoy, and was stable at 17% as a share of revenue

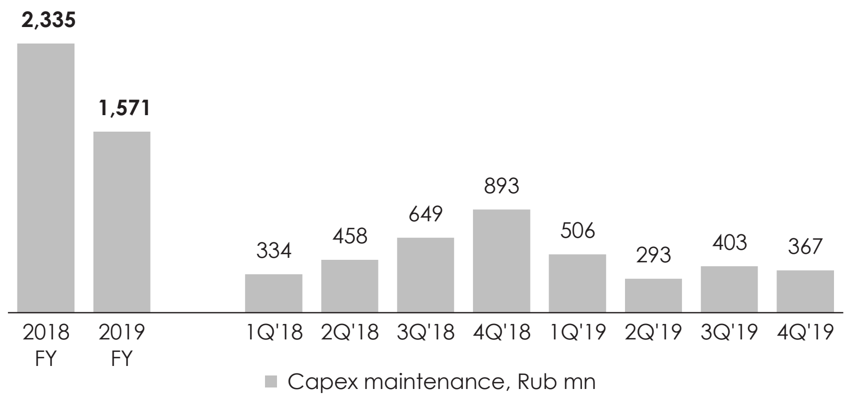


Depreciation & amortization was up 25% yoy due to business combinations in 4Q'19-1Q'20 as well as investments in capital



Capex down 33% yoy to Rub 1.6 bn

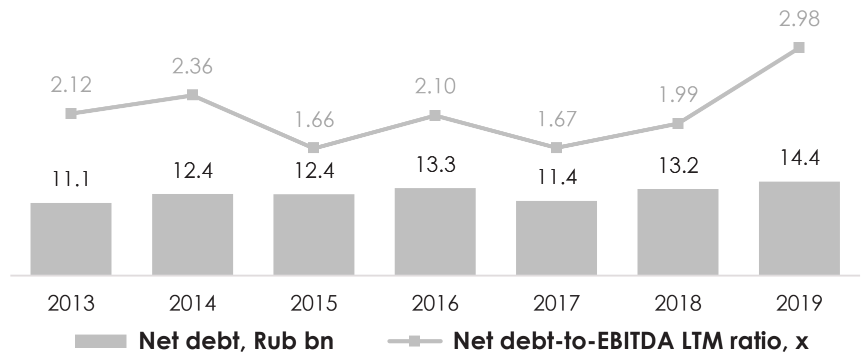
Maintenance Capex down due to the cost optimization program, implemented in 1H 2019



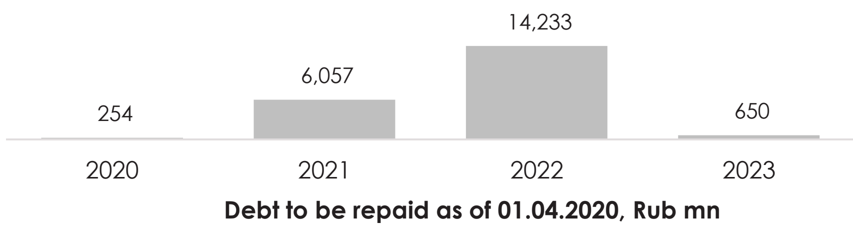
Source: Company data, IFRS accounts

Debt analysis:
Net debt was Rub 12.3 bn and Net debt-to-EBITDA LTM was below 2.5x, as of April 1, 2020

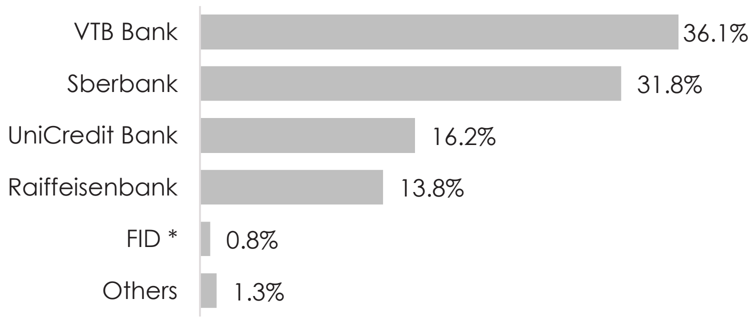
Net debt-to-EBITDA ratio at 2.98x as of 31 Dec 2019



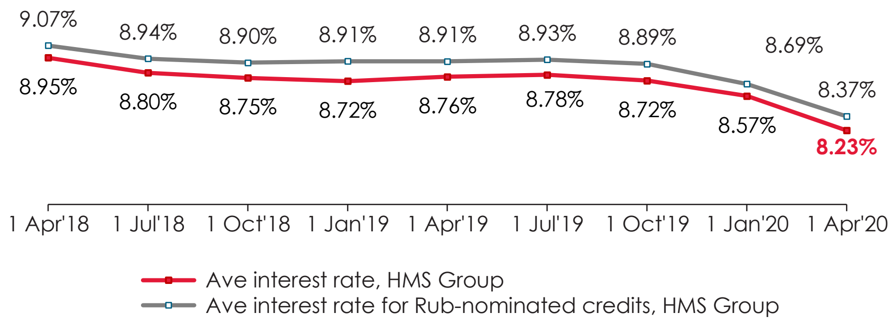
The most repayments fall in 2022



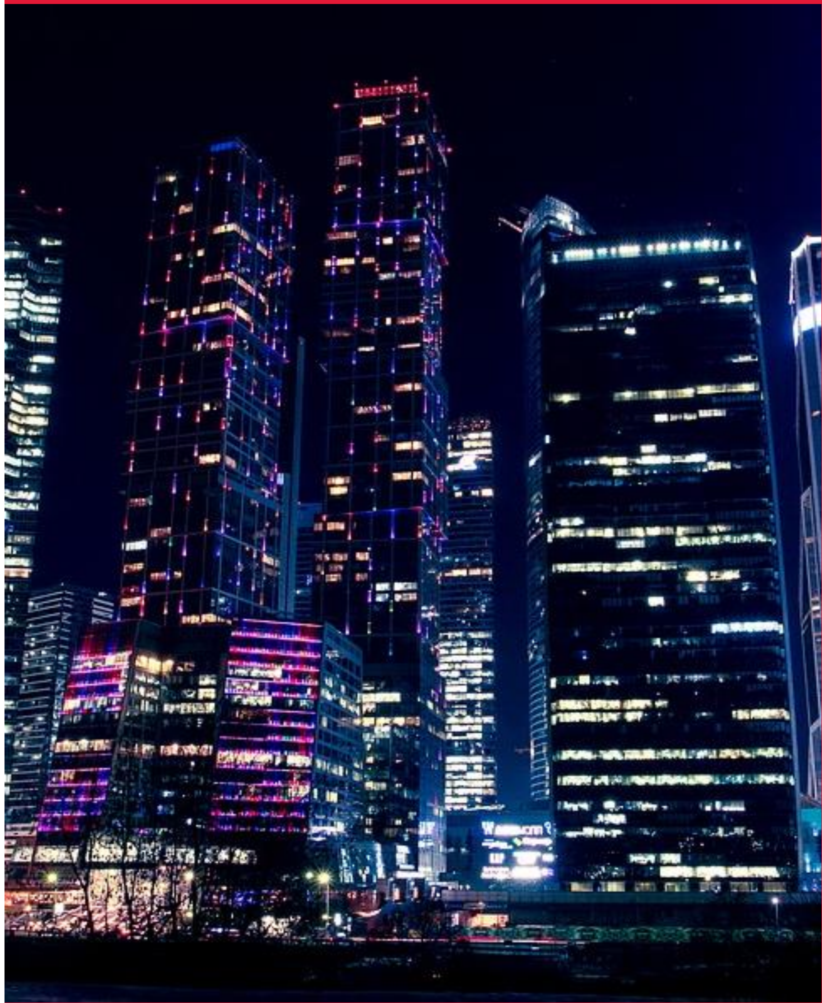
Well-balanced portfolio in terms of banks' share distribution



Average interest rate was decreased to 8.23% pa, as a result of refinancing



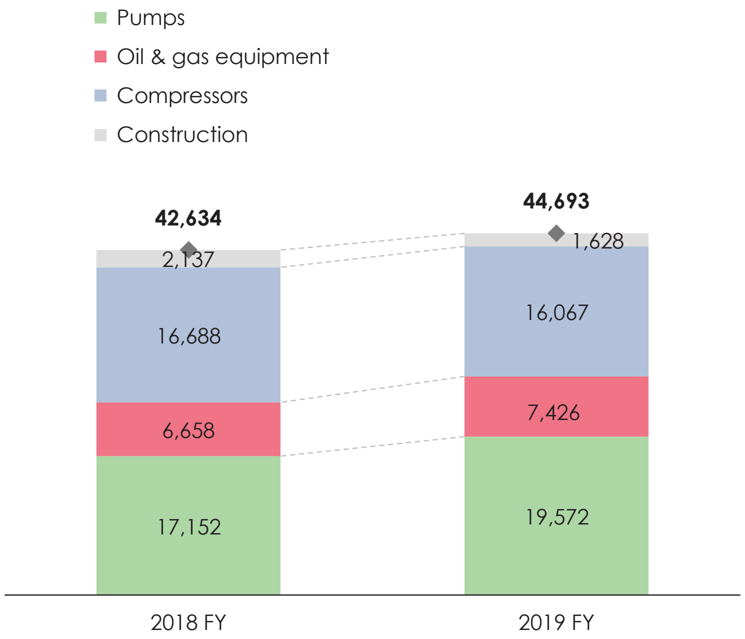
Source: Company data. IFRS accounts, management accounts as of today
* FID – Fund of Industrial development of the Russian Federation, the



Business & Outlook

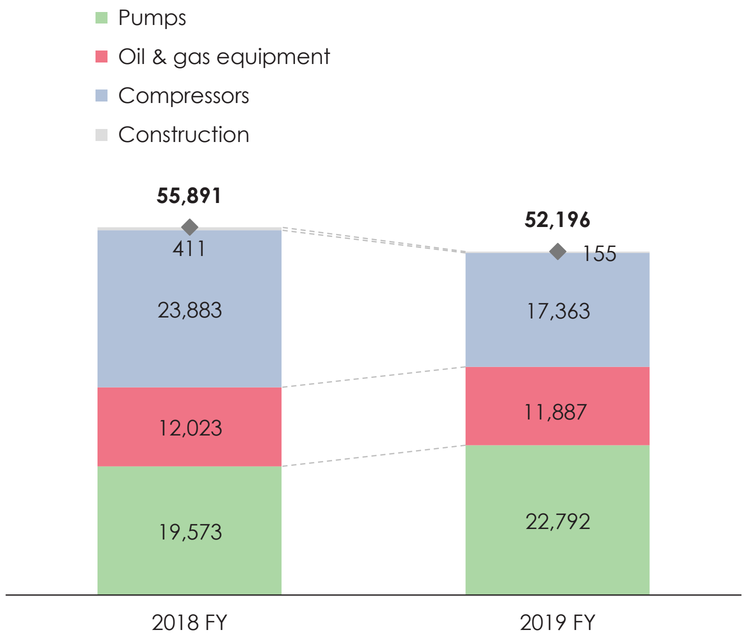
HMS has an improved backlog (+5% yoy) and a promising list of prospective projects

Backlog grew by 5% yoy to Rub 44.7 bn based mainly on recurring business



	1 Jan 2019	*Chg*	1 Jan 2020
Total in Rub bn, where:	**42.6**	***+5%***	**44.7**
Large projects	**17.3**	***1%***	**17.5**
Recurring business	25.3	*+7%*	27.2

Order intake declined 7% yoy to Rub 52.2 bn due to less large contracts signed



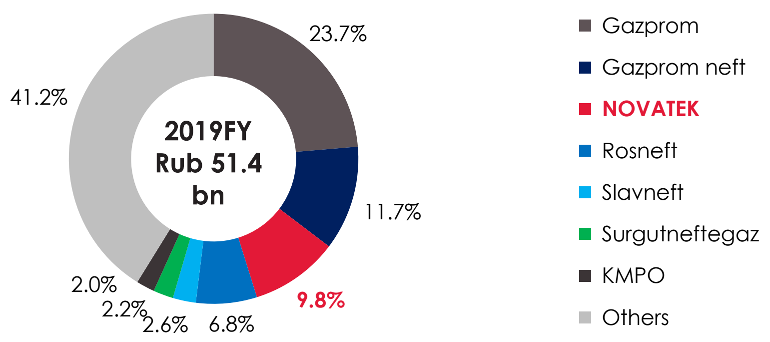
	2018 FY	*Chg*	2019 FY
Total in Rub bn, where:	**55.9**	***-7%***	**52.2**
Large projects	**19.5**	***-20%***	**15.7**
Recurring business	36.4	*+0.4%*	36.5

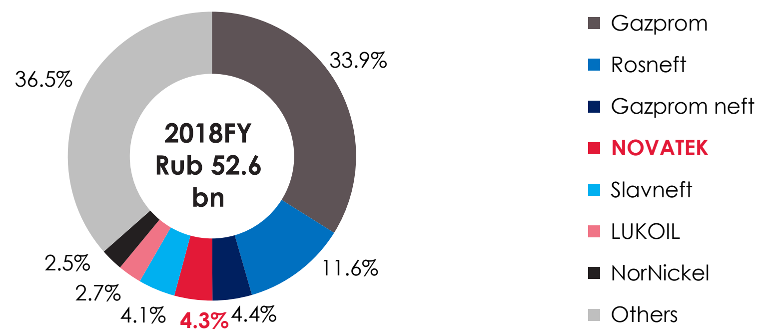
Source: Company data, management accounts

Revenue structure by clients and contracts type

NOVATEK share grew to 9.8% from 4.3% last year

HMS widened its base of the largest clients

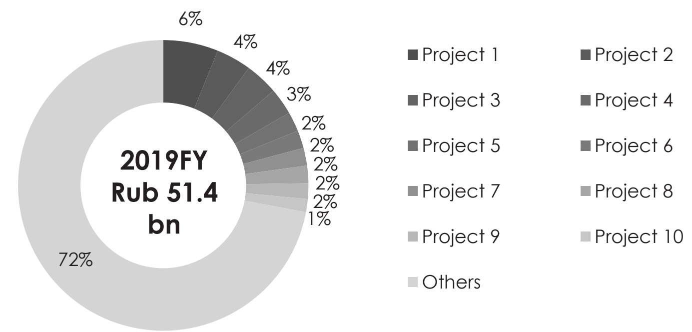




Share of revenue, generated by the largest contract, does not exceed 10%

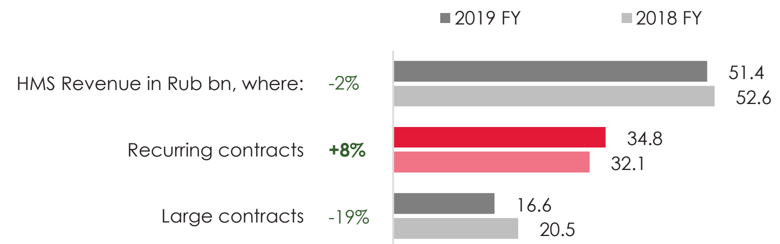
HMS Group doesn't depend on the one only contract:

10 largest projects generated only 28% of revenue in 2019



Recurring business generated the most of HMS revenue

Revenue from recurring business grew to Rub 34.8 bn, by 8% 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

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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