



HMS Group

9 months 2011 IFRS Results  
Conference Call Presentation

6 December 2011



# HMS Group Financial Highlights



## Financial highlights

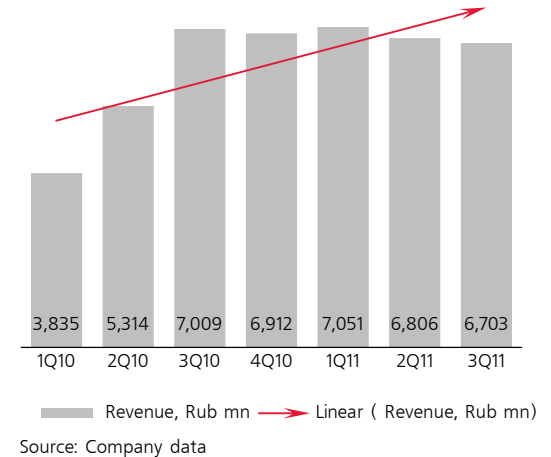
3Q'11	2Q'11	chg, QoQ	Rub, mn	9M'11	9M'10	chg, YoY
6,703	6,806	-1.5%	Revenue	20,560	16,158	+27.2%
2,056	2,221	-7.4%	Gross profit	6,349	3,781	+67.9%
1,265	1,545	-18.1%	EBITDA <sup>1</sup>	4,398	2,251	+95.4%
1,169	1,364	-14.3%	Operating profit	3,912	1,988	+96.8%
890	1,091	-18.5%	Net income (loss) <sup>1</sup>	2,972	1,052	+182.6%
5,689	4,599	+23.7%	Total debt	5,689	5,088	+11.8%
4,885	4,105	+19.2%	Net debt	4,885	3,189	+53.2%
0.9	0.7		Net debt to EBITDA LTM	0.9	1.2	
30.7%	32.6%	-195bps	Gross margin	30.9%	23.4%	+748bps
18.9%	22.7%	-383bps	EBITDA margin <sup>1</sup>	21.4%	13.9%	+746bps
17.4%	20.0%	-260bps	Operating margin	19.0%	12.3%	+672bps
13.3%	16.0%	-276bps	Net income margin	14.5%	6.5%	+795bps
			ROCE <sup>2</sup>	38.6%	28.0%	+1,006bps

Source: Company data

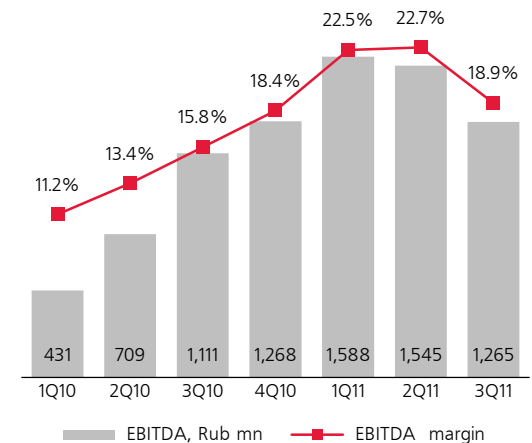
<sup>1</sup> Hereinafter, read EBITDA as EBITDA adjusted, Net income as Profit for the period / year, EBITDA margin as EBITDA adjusted margin

<sup>2</sup> EBIT LTM / average capital employed

## Revenue performance

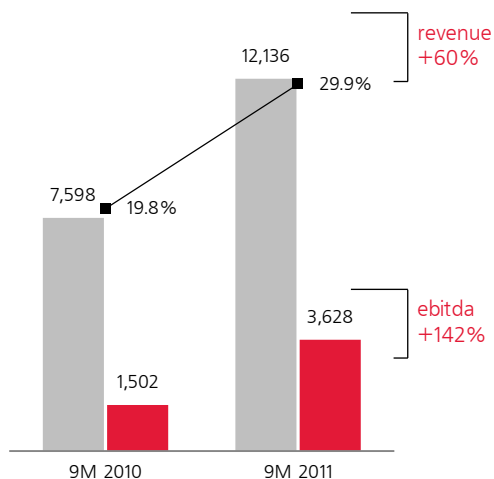


## EBITDA performance

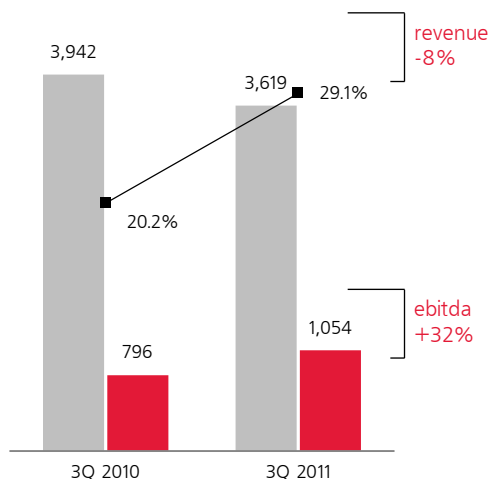


## Pumps<sup>1</sup> financial highlights, Rub mn

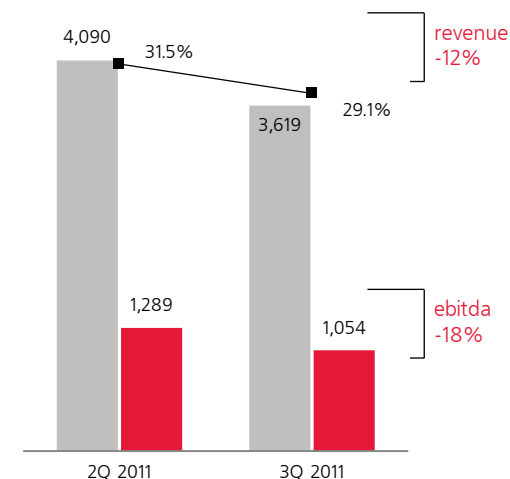
### 9M 2011 vs. 9M 2010



### 3Q 2011 vs. 3Q 2010



### 3Q 2011 vs. 2Q 2011



Revenue Pumps, Rub mn  
 EBITDA Pumps, Rub mn  
 EBITDA margin Pumps, %

Source: Company data

### Pumps:

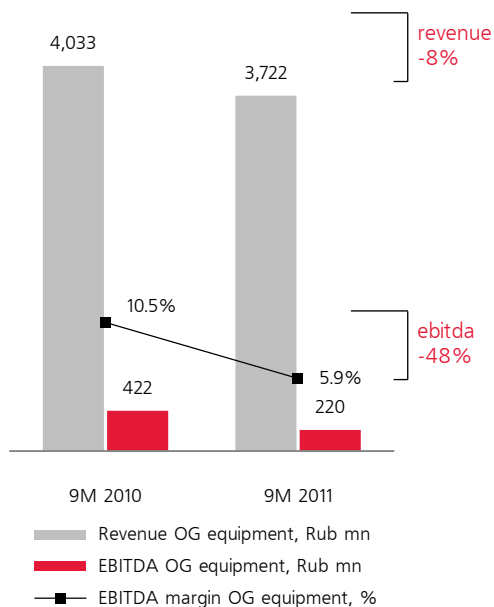
- Execution of the project in the oil transportation segment as well as delivery of standard pumps resulted in high EBITDA and EBITDA margin growth, YoY
- Revenue from pumps excluding integrated solutions grew by 5.5% YoY with EBITDA margin of 18.7% due to growth of demand and effective cost control
- EBITDA margin is lower in 3Q 2011 vs. 2Q 2011 due to unusual high 22.4% EBITDA margin in 2Q 2011 for standard pumps, resulted from signing of a good number of lucrative contracts

<sup>1</sup> Hereinafter, read Pumps as Industrial pumps

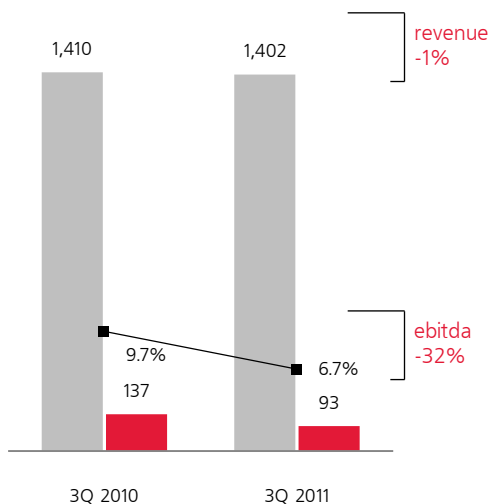
# Oil & Gas Equipment

## Oil & gas equipment financial highlights, Rub mn

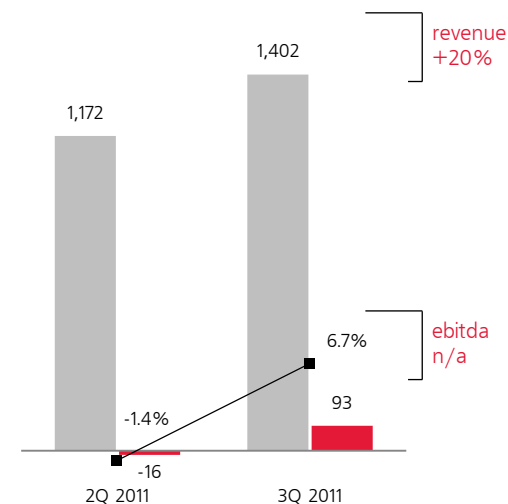
### 9M 2011 vs. 9M 2010



### 3Q 2011 vs. 3Q 2010



### 3Q 2011 vs. 2Q 2011



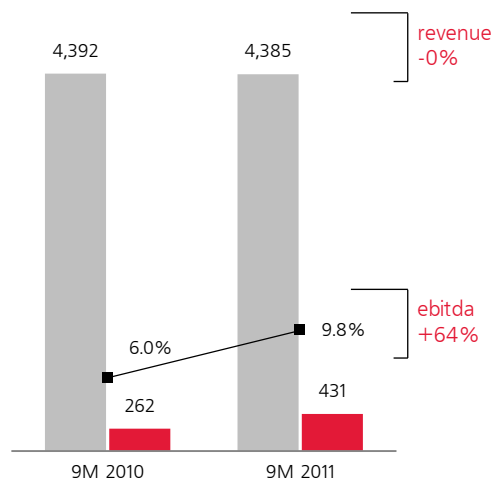
Source: Company data

### Oil & gas equipment:

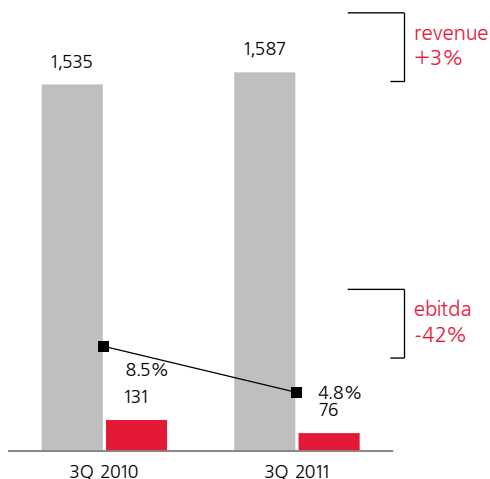
- Absence of orders for integrated solutions in 9 months of 2011 affected revenue and EBITDA margin performance
- Situation is expected to brighten in 4Q 2011 – beginning of 2012 due to participation in current tenders for new infrastructure projects in Eastern Siberia as well as entrance into new market segments
- 3Q 2011 revenues up QoQ due to recently acquired Sibneftemash
- EBITDA margin grew to 6.7% in 3Q 2011 compared to the previous quarter also thanks to Sibneftemash's EBITDA margin of more than 20%

## EPC financial highlights, Rub mn

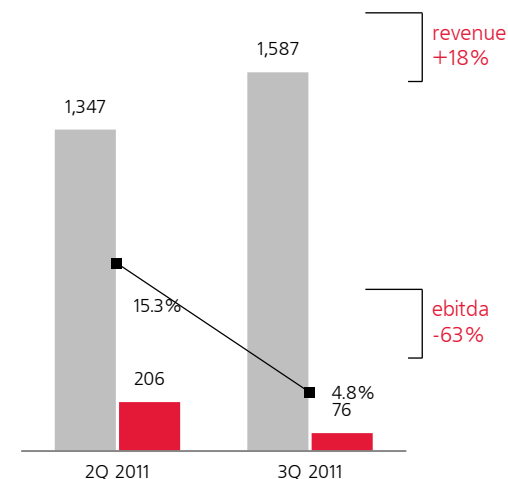
### 9M 2011 vs. 9M 2010



### 3Q 2011 vs. 3Q 2010



### 3Q 2011 vs. 2Q 2011



Revenue EPC, Rub mn  
 EBITDA EPC, Rub mn  
 EBITDA margin EPC, %

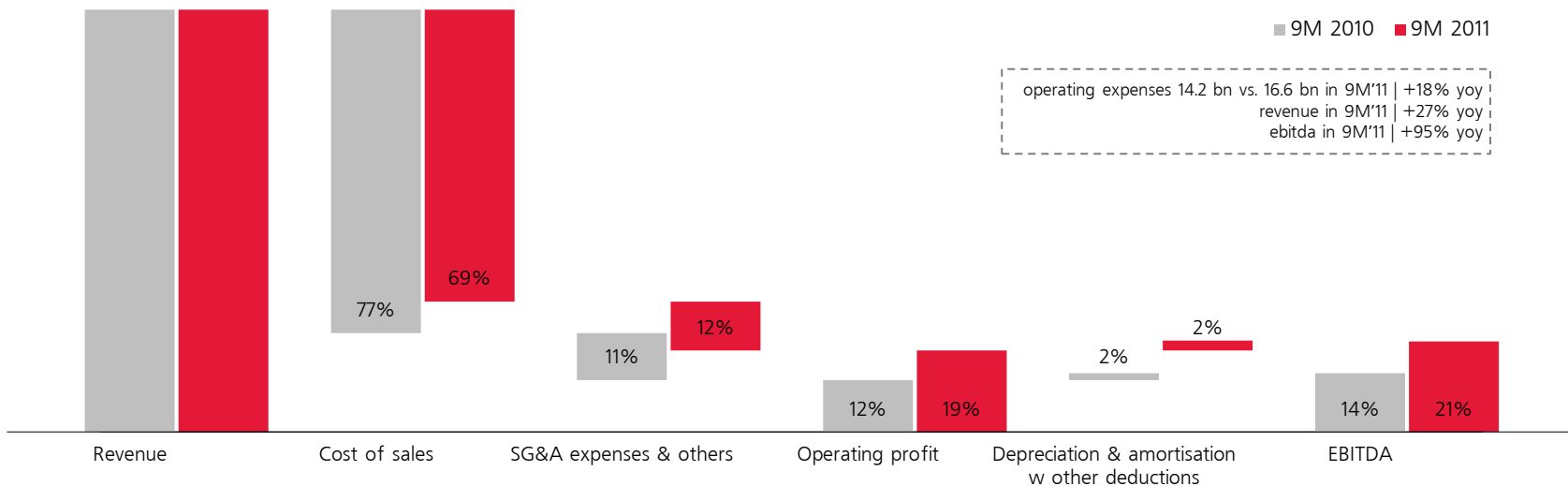
Source: Company data

### EPC:

- Revenue remained stable at Rub 4,385 mn for 9M 2011, compared to Rub 4,392 mn in 9M 2010
- HMS' policy of participation in the construction projects with higher than average profitability led to slower revenue growth
- EBITDA grew by 64.5% YoY with average EBITDA margin of 9.8%:
  - Construction sub-segment's EBITDA margin grew to 3.9% in 9M 2011 though revenue contracted
  - Project & design sub-segment of EPC stood at 19.4% EBITDA margin for 9M 2011 while revenue amounted to Rub 1,675 mn
- EBITDA margin dropped to 4.8% in 3Q 2011 compared to 2Q 2011 due to temporary change of contracts mix
- Signing of a large contract in August 2011 hasn't substantially influenced construction sub-segment's revenue for 3Q 2011

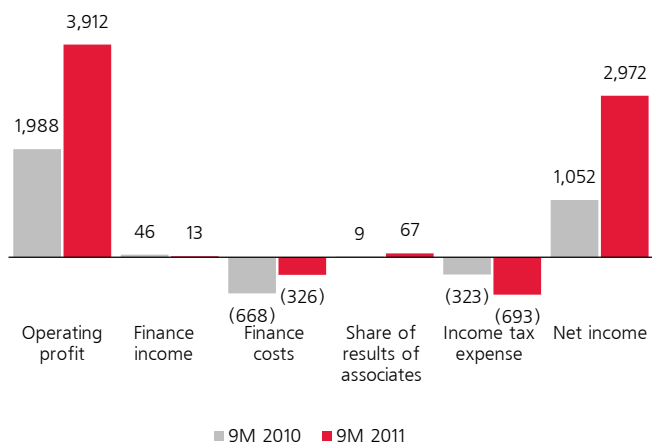
# EBITDA Development in 9M 2011

## EBITDA key drivers, % of revenue



Source: Company data

## Net income components, Rub mn



Source: Company data

## Cost of sales components, Rub mn

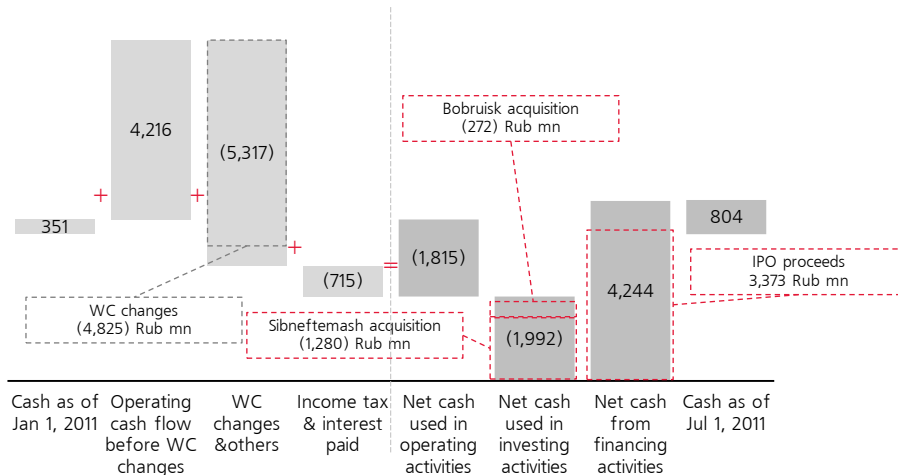


Source: Company data

# CAPEX & Working Capital as of 30 Sept 2011



## Cash flow performance in 9M'11, Rub mn

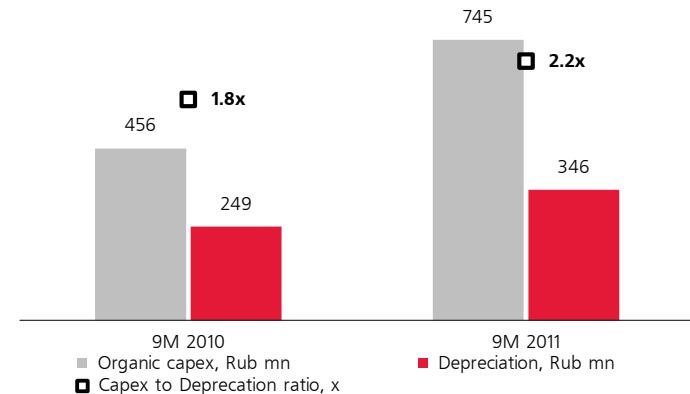


Source: Company data

## Comments

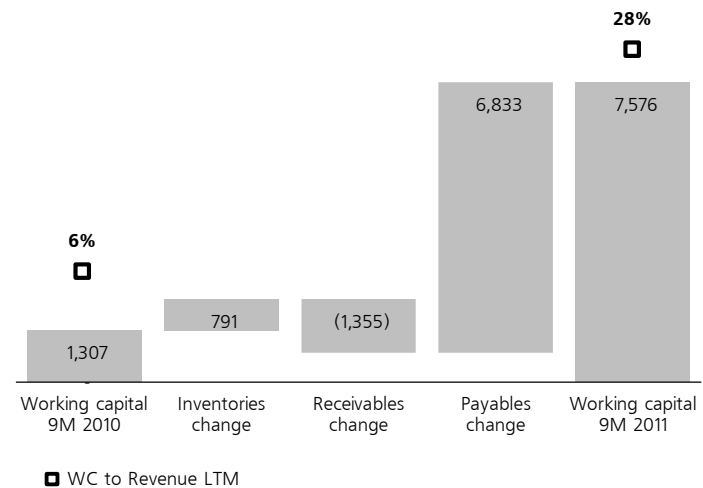
- HMS Group generated Rub 4,216 mn of operating cash flow before changes in working capital
- Substantial working capital increase in 9M 2011 led to the negative operating cash-flow due to ongoing execution of the large infrastructure oil transportation contract with significant advance payments received last year
- Working capital is expected to fit target range of 10-15% of revenue with positive operating cash flow in 9M 2012 as a result of:
  - ✓ Next payment of more than Rub 2 bn under the contract
  - ✓ Prepayments on contracts signed in 2H 2011, and contracts in process of signing
- Investing cash flow consisted of:
  - ✓ Organic capex of Rub 745 mn, in line with target level of 1.5-2.5 times depreciation
  - ✓ Acquisition of Sibneftemash for Rub 1,280 mn, and Bobruisk for Rub 272 mn

## Capital expenditures in 9M'11 vs. 9M'10



Source: Company data

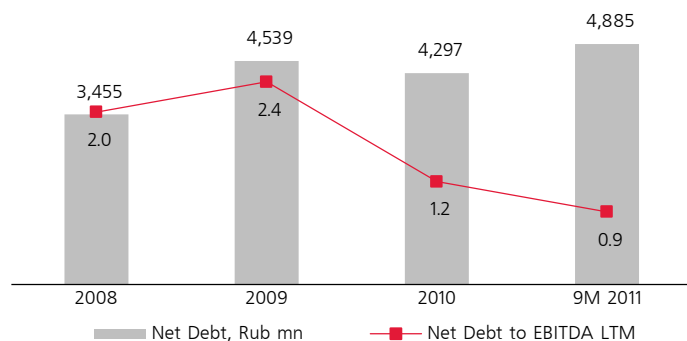
## Working capital as of 30 Sept 2011, Rub mn



Source: Company data

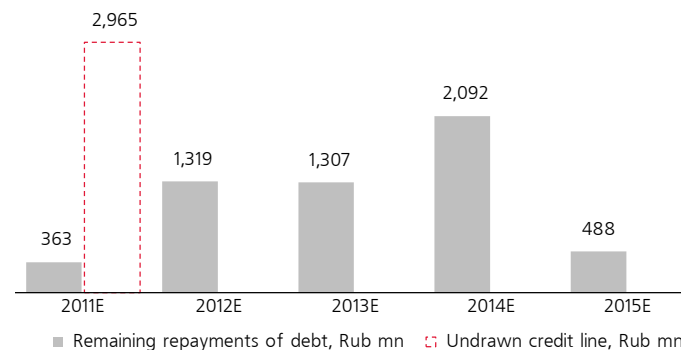
# Healthy Debt Position

Moderate leverage...



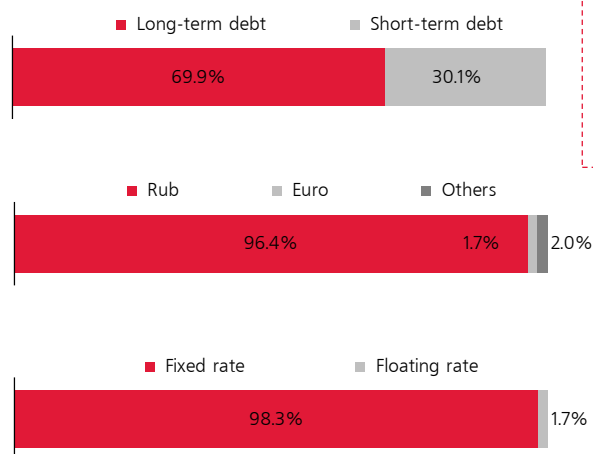
Source: Company data

...with comfortable repayment schedule...



Source: Company data as of 30 September, 2011

...and low currency and maturity risks



S&P corporate credit rating:  
**BB-**  
Outlook:  
**Stable**

## Comments

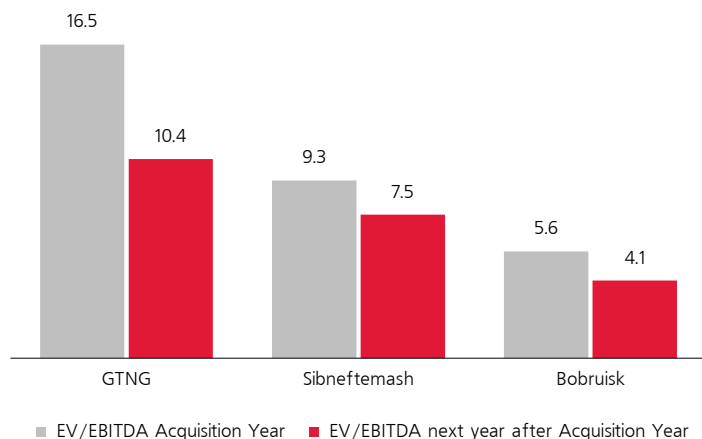
- Low leveraged business profile with Net Debt to EBITDA LTM ratio of **only 0.9** with internal covenant of 2.5
- Easy access to additional liquidity with more than **Rub 2.97 bn** of undrawn credit facilities
- Steady debt repayment schedule with negligible currency risk and prudent maturity structure
- More than 96% of Rub-nominated debt **with fixed interest rate**
- Interest rate of **8.9%**, down from 11% a year ago, while interest coverage ratio<sup>1</sup> of **15.4**

Source: Company data as of 30 September, 2011

<sup>1</sup> EBIT LTM / Interest expenses



## EV/EBITDA of recently acquired companies



Source: Company data

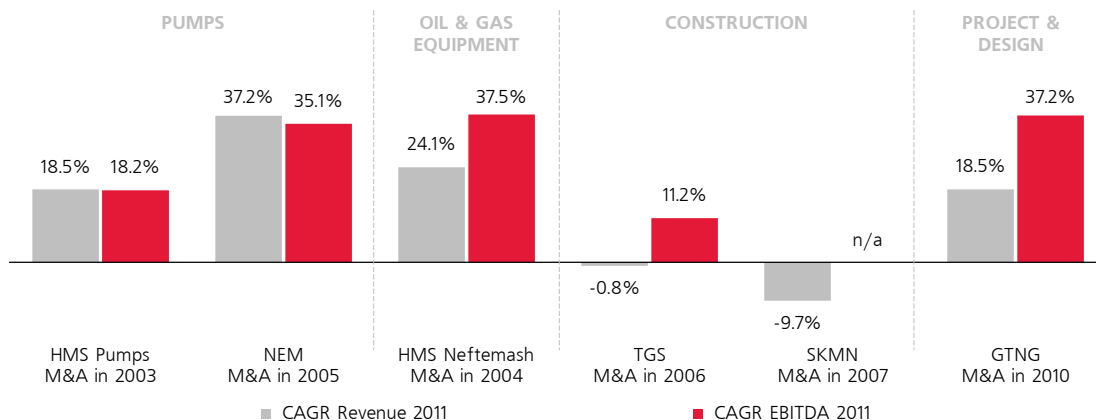
## What does HMS Group buy

- Pumps, compressors, oil & gas equipment, project & design
- Russia and the CIS
- Revenue within \$ 20-100 mn
- Low-leveraged companies
- Friendly management

### Acquisitions rationale:

- Broadening of HMS Group's product portfolio with complementary equipment
- Potential growth of revenues and EBITDA margin of acquired companies:
  - Sales power and R&D capability of HMS Group
  - Well-known brands and/or technical equipment base of acquired companies
- Potential growth of revenues and EBITDA margin of the whole Group through integrated solutions

## CAGR of selected subsidiaries' revenue & EBITDA: from M&A to 2011 (RAS)



Source: Company data

### Bobruisk Machine Building Plant acquisition in Aug'11

- Key financials, BAS:
  - 1H'11 Revenue Rub 222 mn
  - 1H'11 EBITDA Rub 30 mn
  - 1H'11 EBITDA margin 13%
- Deal details:
  - \$ 9.7 mn for 57% of the company (primary stock)
  - 5.6x EV/EBITDA 2011 pre-money

**HMS not only grew through acquisitions but managed to achieve significant organic growth**

# Backlog

## Backlog structure performance

- 1 Revenue recognition depends on production period for various type of equipment and the nature of the project
- 2 There is no direct correlation between decline in backlog and potential decline in revenues because of backlog's diversification and different production periods of equipment as well as projects' nature

Rub mn	9M 2011	6M 2011	chg, QoQ	9M 2010	chg, YoY	Production period /Annual revenue
Products & services on demand, short production cycle	-	-	-	-	-	about Rub 4 bn
Core equipment & services	7,364	7,323	+1%	7,622	(3%)	2-8 months
Construction component of EPC	1,595	1,492	+7%	2,847	(44%)	6-18 months
Oil transportation pumps	3,138	4,914	(36%)	10,101	(69%)	12-36 months
ESPO pumps	2,306	4,011	(43%)	10,101	(77%)	12-36 months
Non-ESPO pumps	832	903	(8%)	0	n/a	6-12 months
<b>Total backlog</b>	<b>12,097</b>	<b>13,728</b>	<b>(12%)</b>	<b>20,570</b>	<b>(41%)</b>	

Source: Company data, Management accounts

# Selected End-market Projects for Mid-term



## Increased number of HMS end-market projects

Project	Brief description	Completion	Key metrics	Comments
<b>Rosneft</b>				
✓ Vankor 2 stage	Further development. Capex for 2011 \$ 2.6 bn	next stage by 2014	Min capex Rub 480 bn	HMS won a number of tenders
Yurubcheno-Tokhomsk oilfield	Start of oil production in 2013. Oil reserves & resources 513mt	by 2013	pick production 10mtpa	
Komsomolskoe, Priobskoe oilfields	Achievement of 95% level of associated gas utilization			HMS participated in previous stages
<b>Lukoil &amp; Bashneft JV</b>				
Trebs and Titov fields	Joint development of the fields, in stage of project development. Reserves 141 mt	by 2013	Capex \$5-6 bn	HMS has good references for previous projects
<b>Transneft</b>				
ESPO expansion	OPS to be constructed to deliver oil to Khabarovsk and Komsomolsk refineries	9 OPS by 2015		HMS participated in previous stages
✓ Zapolyarye – Pur-pe pipeline	Oil transportation from YANAO and Northern Krasnoyarsk region oilfields	4 OPS by 2015	Capex Rub 120 bn	HMS participates in a project design
ESPO expansion	OPS to be constructed to deliver oil to Primorsk refinery	4 OPS by 2017		HMS participated in previous stages
Pur-pe – Samotlor expansion	Construction of 2 OPS	2 OPS by 2017	Capex Rub 53 bn	HMS participated in previous stages
Yurubcheno-Takhomskoe-Taishet pipeline	Oil transportation from Yurubcheno-Tokhomsk and Kuyumbinsk oilfields to ESPO-1. Length ~600 km. Capacity ~18mtpa	Investment decision by 2011-end	Capex Rub 63 bn	HMS participated in previous stages
<b>TNK-BP</b>				
Russkoe oilfield	Giant oilfield in YANAO with specific oil. Project production 20 mtpa		Capex \$ 4.5 bn	HMS participates in a project design
Samotlor	Further development of an active oilfield in Nizhnevartovsk.	by 2014	Capex \$ 4.6 bn	HMS participated in previous stages
Uvat	21 oilfields in Tyumen region			HMS participated in previous stages
✓ East- and Novo- Urengoy gas & condensate fields	Planned production for 2011 is 3.2bcm, up 17% in 2010			HMS participates in a project design
Verkhnechonsk oilfield	Oilfield located in the Eastern Siberia, Irkutsk region. Development was stimulated by close proximity of ESPO pipeline.	Peak production by 2014	Additional \$3-4 bn	HMS participated in previous stages
<b>Gazprom</b>				
Shtokman gas and condensate field	The field will become a resource base for Russian pipeline gas and liquefied natural gas (LNG) exports to the Atlantic Basin markets			HMS produces units for complex gas preparation
<b>Gazprom Neft</b>				
Priobskoe oilfield	Western Siberia. Recoverable reserves ~600 mt			HMS participates in a project design
Urmanskoe and Shinginskoe oilfields	Eastern Siberia			
Kuyumbinskoe oilfield	50/50 w TNK-BP thru Slavneft. Reserves C1 65 mt, C2 151 mt			
<b>Sberbank Capital</b>				
Dulisma oilfield	Irkutsk region. Further development. 3 <sup>rd</sup> resource base for ESPO		Total reserves 15 mt	HMS participated in previous stages
✓ Taas-Yuriah oilfield	Sakha region. Further development. Total reserves ~130 mt		Capex Rub 15-30 bn	
<b>Iraq</b>				
Rumaila brownfield	Consortium headed by BP		Capex \$ 15 bn	HMS submitted technical survey
Az Zubair	Consortium headed by Eni		Capex \$ 20 bn	HMS participates in a tender
<b>Municipal water</b>				
Central Asia	Irrigation stations for Uzbekistan and Turkmenia			HMS has good references
<b>Nuclear</b>				
Rosatom	Pumps for 5 blocks. Tender to be held at 2011-end –2012-beg	By 2014	Tenders Rub 1.5 bn	HMS has good references

Source: Public information, Company data as of December 6, 2011

✓ Contracts signed

## Selected contracts and events up to date

### Main Events

- First large contract for **AFTERMARKET** services on an East-Siberian oil and gas field, **Rub 480 mn**
  - First **TURNKEY** project on Srednebotuobinskoe oil & gas condensate field, **Rub 1.8 bn**
  - **UNIQUE** testing facility was put into operation to increase R&D capacities, **\$ 20 mn**

### Large contracts & significant events

- **Contract** worth more than **Rub 1 bn** for construction of well clusters and their support infrastructure facilities on a gas field in Western Siberia
  - **Contract** to provide engineering services on a gas field in Eastern Siberia, **Rub 1.27 bn**
- **Contract** for production of modular equipment for total sum of more than **Rub 500 mn** for an Eastern Siberia oilfield
  - **Contract** to carry out design works worth over **Rub 300 mn** for a Western Siberia gas condensate field
  - **Contract** for provision of replacement and overhaul services for Transneft, **Rub 186 mn**

### Permanent inflow of standard contracts

- **Contract** for production of pumping equipment for **Rostov nuclear power station**
  - **Contract** for production of pumping equipment for **Norilsk Nickel**
  - **Contract** for production of equipment for **Surgutneftegaz**
- **Contract** for production of modular equipment for **Vingapur** oil and gas field
  - **Contract** for delivery of group measuring units to **Gazprom Neft**

In 3Q 2011 HMS Group sold products and services for Rub 3,554 mn to 3,426 clients (excluding three largest clients) with average revenue per client of around Rub 1 mn

# Contacts and HMS Group Key Details

## Investor Relations

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**HMS Hydraulic Machines & Systems Group Plc is listed on the London Stock Exchange**

Identifier	Number	Number of shares outstanding
ISIN	US40425X2099	117,163,427
Ticker	HMSG	
Bloomberg	HMSG LI	
Reuters	HMSGq.L	

## Credit Rating

Standard & Poor's

BB- (Outlook stable) affirmed on 29 November, 2011


## Notes to the presentation and formulas used for some figures' calculations

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- 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 amortization, impairment of assets, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, defined benefits scheme expense, warranty provision, provision for legal claims, provision for VAT and other taxes receivable, other provisions, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects of non-recurring income and expenses on the results of the operating segments
- EBIT is calculated as Gross margin minus Distribution & transportation expenses minus General & administrative expenses
- Total debt is calculated as Long-term borrowings plus Long-term financial lease liabilities plus Short-term borrowings plus Short-term financial lease liabilities
- Net debt is calculated as Total debt minus Cash & cash equivalents at the end of the period
- Working capital is calculated as Inventories plus Trade and other receivables minus Trade and other payables
- ROCE is calculated as EBIT LTM divided by Average Capital Employed (total debt + total equity), where EBIT equals Gross profit minus SG&A, and Total debt equals the above formula
- 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

A solid red square.

## Disclaimer

A vertical strip of four images on the left side of the page. From top to bottom: 1. A large industrial pipe or vessel. 2. A close-up of a mechanical component. 3. A large industrial structure, possibly a crane or part of a ship. 4. A factory interior with a conveyor belt.

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