HMS Group
6 months 2012 IFRS Results
Webcast Presentation

25 September 2012

6 months 2012 under review

On track for FY 2012 guidance delivery

- ✓ Continued strong order inflow
- ✓ Follow-up ESPO contract signed
- ✓ Record high backlog of orders
- ✓ Positive operating cash-flow
- ✓ Debt burden growth in line with expectations

Events after the reporting date:

- ✓ Several flagship contracts signed
- ✓ Two acquisitions completed (KKM and Apollo)
- ✓ Progress in orders for compressor-based solutions, as a result of KKM's acquisition

Vertical API 610 pump at the testing bed

HMS Group Financial Highlights

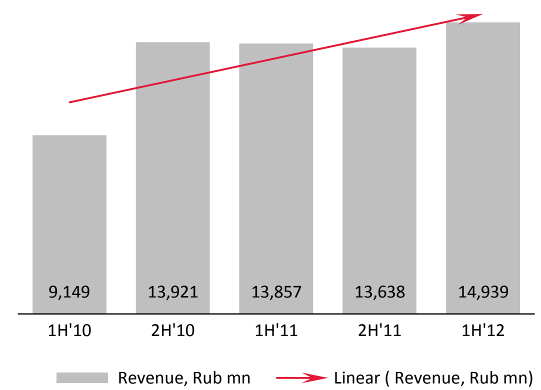
Financial highlights

2Q'12	2Q'11	chg, YoY	Rub, mn	6m 12	6m 11	chg, YoY
7,632	6,806	+12%	Revenue	14,939	13,857	+8%
2,208	2,209	+0%	Gross profit	4,250	4,270	0%
1,103	1,545	-29%	EBITDA [1]	2,470	3,133	-21%
849	1,364	-38%	Operating profit	1,683	2,743	-39%
484	1,091	-56%	Net income (loss) [1]	969	2,082	-53%
11,921	4,597	+159%	Total debt	11,921	4,597	+159%
10,668	4,103	+160%	Net debt	10,668	4,103	+160%
2.11	0.94		Net debt to EBITDA LTM	2.20	0.74	
28.9%	32.5%	-353bps	Gross margin	28.5%	30.8%	-236bps
14.5%	22.7%	-824bps	EBITDA margin [1]	16.5%	22.6%	-608bps
11.1%	20.0%	-893bps	Operating margin	11.3%	19.8%	-853bps
6.3%	16.0%	-969bps	Net income margin	6.5%	15.0%	-854bps
22.2%	27.9%	-565bps	ROCE [2]	19.6%	38.9%	-1,928bps

Source: Company data

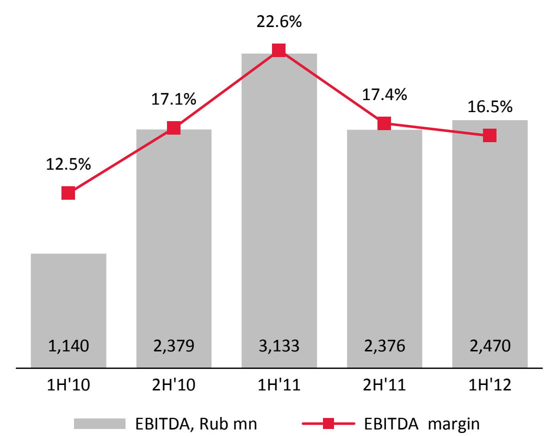
[1] Hereinafter, read EBITDA as EBITDA adjusted, Net income as Profit for the period / year, EBITDA margin as EBITDA adjusted margin
[2] EBIT LTM / average capital employed

Revenue performance



Source: Company data

EBITDA performance

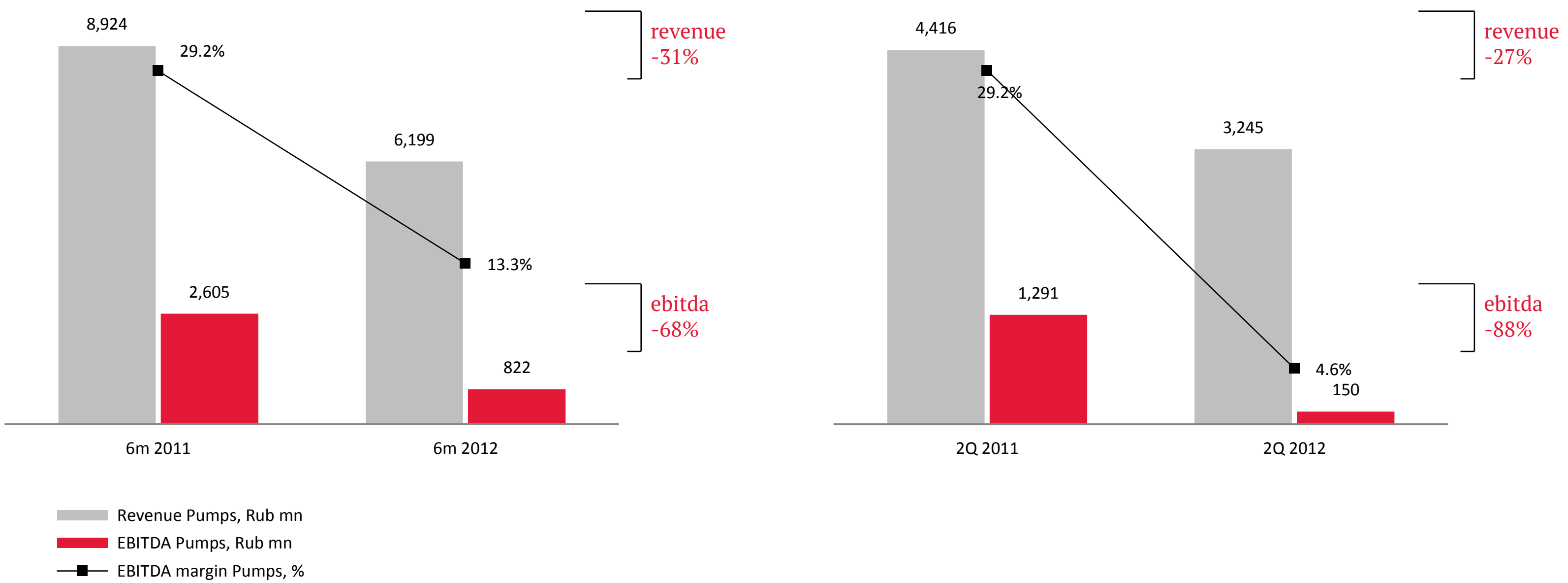


Source: Company data

Industrial pumps

Revenue and EBITDA performance

- **6 months 2012 vs. 6 months 2011**
- **2Q 2012 vs. 2Q 2011**



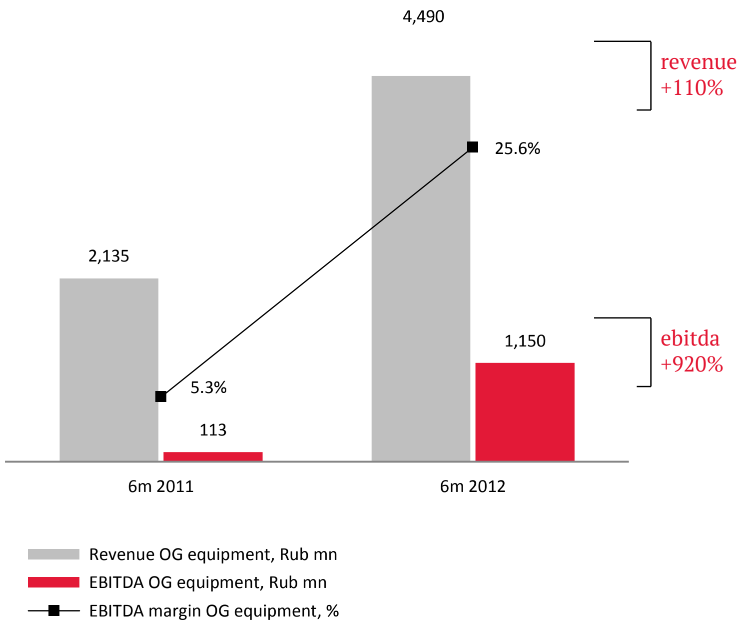
Source: Company data

- A high-base effect caused by a significant amount of the ESPO-related revenue recognized in 1H 2011 led to contraction of the industrial pumps business segment revenue
- Excluding revenue from the ESPO contract, the segment revenue grew by 35% yoy, mainly driven by consolidation of DGHM, acquired in 2011
- EBITDA contraction was driven by a small portion of EBITDA, generated by integrated solutions contracts as opposed to the last year EBITDA mix, where the large high-margin contracts in oil transportation and power generation had boosted results significantly
- Along with this, the bonuses paid in 2Q 2012 for the successful completion of the equipment delivery under the first ESPO-related contract as well as a portion of the Group's turn-key projects' operating costs affected EBITDA of the segment
- Due to a longer term business cycle, a comparison on a quarterly horizon is not representative

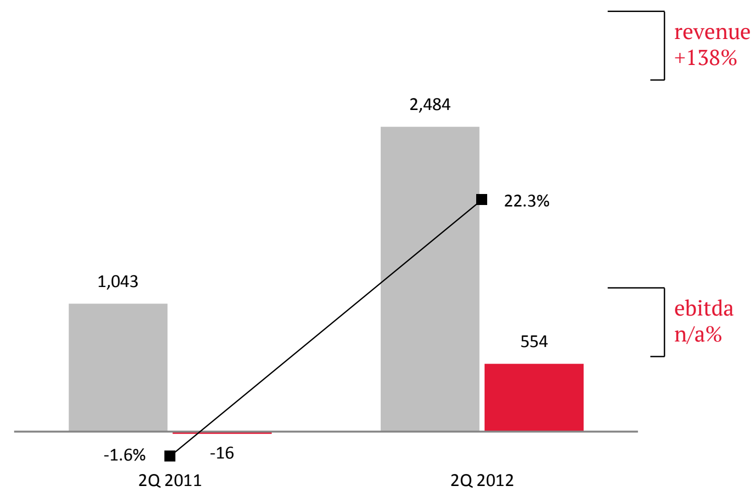
Oil & Gas Equipment

Revenue and EBITDA performance

- **6 months 2012 vs. 6 months 2011**



- **2Q 2012 vs. 2Q 2011**



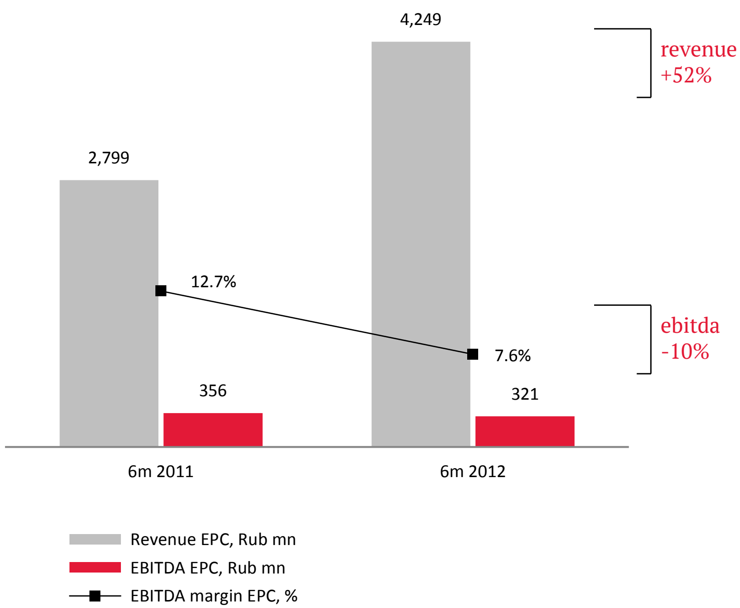
Source: Company data

- Participation in the second stage of Vankor oilfield development and contribution of revenue generated by Sibneftemash, acquired in 2011, were the main drivers of the segment’s revenue and EBITDA performance
- Excluding Sibneftemash contribution, organic revenue grew by impressive 80% yoy
- Higher share of contracts based on integrated solution resulted in tenfold EBITDA growth with a solid margin of 25.6% in 1H 2012 compared to 5.3% in 1H 2011
- Due to a longer term business cycle, a comparison on a quarterly horizon is not representative

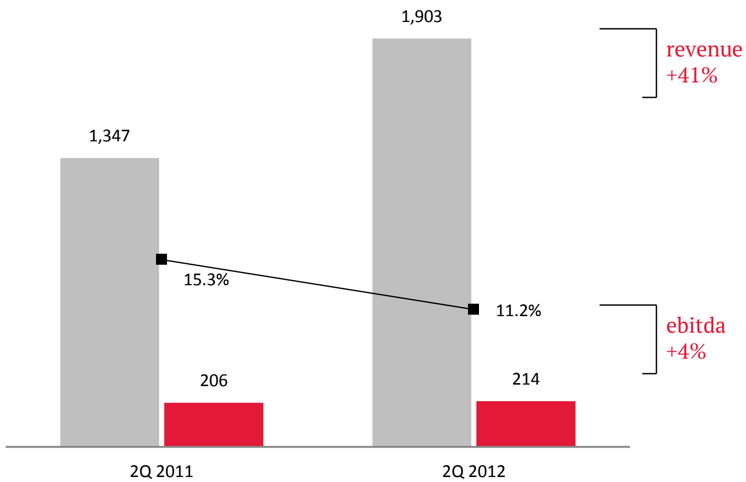
EPC

Revenue and EBITDA performance

- **6 months 2012 vs. 6 months 2011**



- **2Q 2012 vs. 2Q 2011**

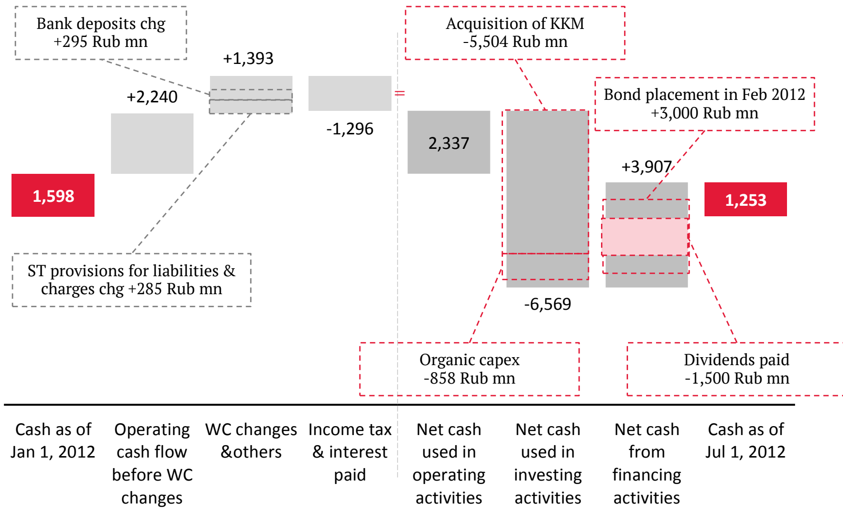


Source: Company data

- Revenue growth of EPC segment was mainly driven by construction contracts with higher than average EBITDA margin
- However, EBITDA margin contraction was driven by changes in the mix of construction and project & design contracts together with lower than expected margin for several new innovative projects in project & design field, which required additional costs as well as a temporarily aggressive pricing policy applied to penetrate new promising segments
- As the Group focuses on integrated turn-key solutions with involvement of all business segments and intends to participate in the later stages of the project, the overall margin for the project is expected to be restored as a result of synergies between different business segments
- Due to a longer term business cycle, a comparison on a quarterly horizon is not representative

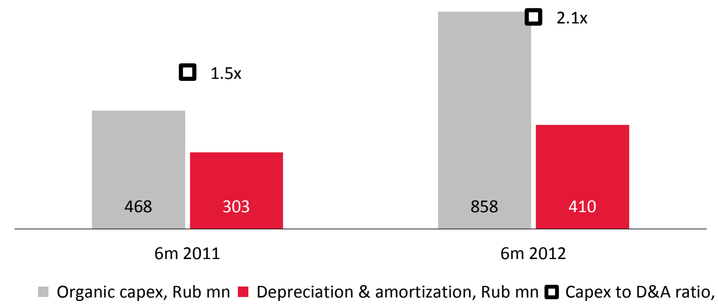
CAPEX & Working Capital for 6 months 2012

Cash flow performance for 6m 2012, Rub mn



Source: Company data

Capital expenditures[1] for 6m 2012 vs. 6m2011

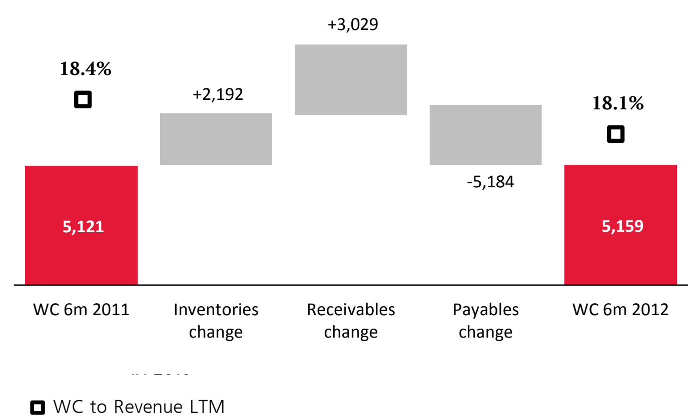


Source: Company data

Comments

- Positive operating cash flow before working capital amounted to Rub 2,240 mn on July 1, 2012
- Due to lower needs of working capital and down payment for the second ESPO contract, total cash generated from operations amounted to Rub 3,633 mn versus cash used in operations of Rub 912 mn in the corresponding period of the last year
- Net cash inflow from operating activities in the first half grew to Rub 2,337 mn, compared to outflow of Rub 1,419 mn in the same period of 2011
- Net cash outflow from investing activities totaled Rub 6,569 mn, compared to Rub 1,726 mn in 1H 2011, driven mainly by acquisition of KKM. Organic CAPEX was in line with expectations - Rub 858 mn
- Working capital amounted to 18.1% of Revenue LTM, compared to 18.4% last year

Working capital as of June 30, 2012, Rub mn

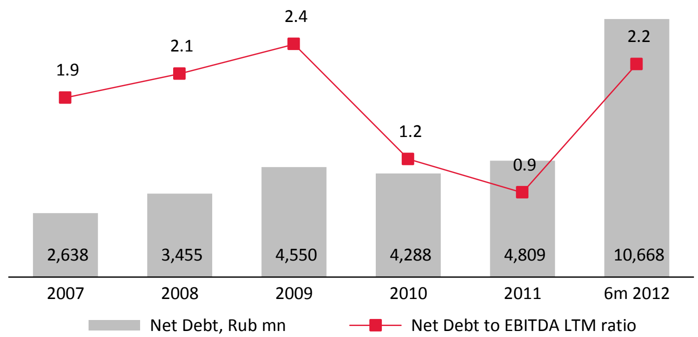


[1] Herein, Capex = Organic capex = Purchase of PPE + Purchase of intangible assets

Source: Company data

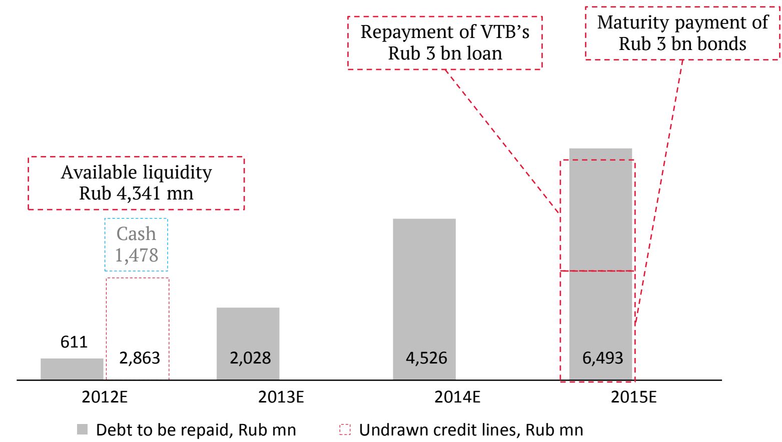
Debt Position

Leverage still in line with HMS' range



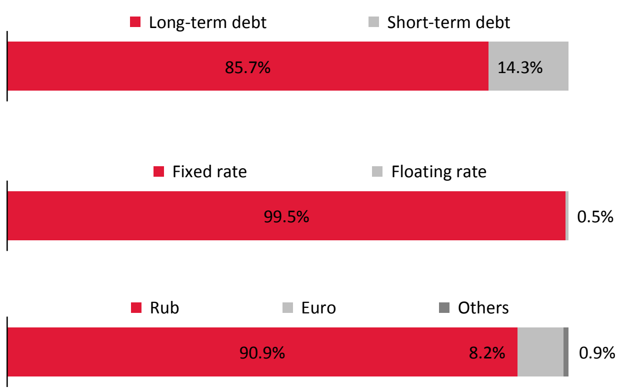
Source: Company data

Comfortable repayment schedule



Source: Company data including VTB's refinancing as of 01.09.2012

Low currency and maturity risks



S&P corporate credit rating : **B+**
Outlook: **Negative**
Downgraded on 24.07.2012 after acquisitions of KKM and Apollo

Source: Company data as of 01.09.2012
[1] Operating profit LTM / Interest expenses LTM

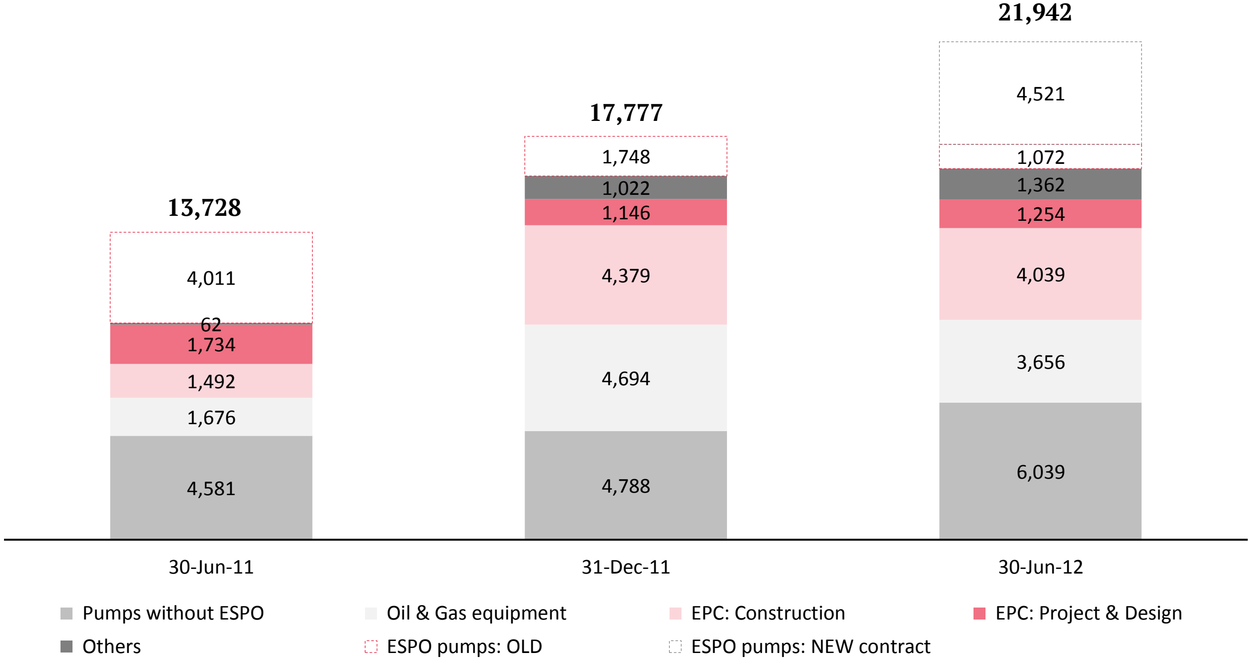
Comments

- Net Debt to EBITDA LTM ratio stood at 2.2, less than internal covenant set at 2.5
- Strong liquidity position, negligible currency risk and prudent maturity structure:
  - ✓ More than 90% of Rub-denominated debt with fixed interest rate
  - ✓ Available liquidity of Rub 4,341 mn fully covers 2012E-13E repayments
  - ✓ Interest coverage ratio[1] equals 4.5
  - ✓ 9.8% average interest rate for loans denominated in Rubles

Backlog in 2Q 2012 and Order intake update

Ongoing growth of the backlog

Backlog of KKM is not included in calculation



	2Q 2011	2Q 2012	chg, % yoy
Pumps	8,592	11,632	+35%
Pumps without ESPO	4,581	6,039	+32%
Oil & Gas equipment	1,676	3,656	+118%
EPC	3,399	5,293	+56%
EPC: Construction	1,492	4,039	+171%
EPC: Project & Design	1,734	1,254	-28%
Others	62	1,362	+2,105%
Total	**13,728**	**21,942**	**+60%**

Order intake growth continued

- Follow-up Rub 1.6 bn contract for construction of the oil treatment plant on the Dulisma oil & gas condensate field
- Follow-up US$ 85 mn contract for the reconstruction of 3 water-pumping stations in Turkmenistan
- "Turn-key" contract of Rub 907 mn for delivery and installation of a compressor station, based on compressors of recently acquired KKM

Source: Company data, Management accounts
Note: KKM's backlog is excluded from calculation of 2Q 2012 figures

Selected End-market Projects for Mid-term

Our priorities in 2012 (marked with red ticks)

Project	Brief description
Rosneft	
✓ Vankor 2 stage — signed	Further development. Capex for 2011 $ 2.6 bn
Yurubcheno-Tokhomsk oilfield	Start of oil production in 2016. Oil reserves & resources 513mt
Komsomolskoe, Priobskoe oilfields	Achievement of 95% level of associated gas utilization
Lukoil & Bashneft JV	
Trebs and Titov fields	JV. Project development stage. Reserves 141 mt. Start of production is expected in 2013. Max capacity 6 mtpa
Transneft	
Tikhorestk-Tuapse-2 pipeline	Increase of the oil volume delivered to the Tuapse oil refining plant . Length of 247 km and capacity of 12 mtpa. 2 OPSs to be reconstructed
✓ ESPO expansion — signed	OPS to be constructed to deliver oil to Khabarovsk and Komsomolsk refineries
✓ Zapolyarye – Pur-pe pipeline	Oil transportation from YANAO and Northern Krasnoyarsk region to ESPO pipeline
Yurubcheno-Takhomskoe-Taishet pipeline	Oil transportation from Yurubcheno-Tokhomsk and Kuyumbinsk oilfields to ESPO-1. Length ~703 km. Capacity ~15mtpa
TNK-BP	
Russkoe oilfield	Giant oilfield in YANAO with specific oil. Project production 20 mtpa
Samotlor	Further development of an active oilfield in Nizhnevartovsk.
Uvat	21 oilfields in Tyumen region
✓ East- and Novo- Urengoy gas & condensate fields	Planned production for 2011 is 3.2bcm, up 17% in 2010
Verkhnechonsk oilfield	Oilfield located in the Eastern Siberia, Irkutsk region. Development was stimulated by close proximity of ESPO pipeline.
Gazprom	
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
Gazprom Neft	
Priobskoe oilfield	Western Siberia. Recoverable reserves ~600 mt
Kuyumbinskoe oilfield	50/50 w TNK-BP thru Slavneft. Reserves C1 65 mt, C2 151 mt
Sberbank Capital	
✓ Dulisma oilfield — signed	Irkutsk region. Further development. 3rd resource base for ESPO
✓ Taas-Yuriah oilfield — signed	Sakha region. Further development. Total reserves ~130 mt
Refineries	Refineries located in Central and Privolzhskiy Federal district
Iraq	
✓ Rumaila brownfield — won	Consortium headed by BP
Az Zubair	Consortium headed by Eni
Water utilities	
✓ Central Asia — signed	Irrigation stations for Uzbekistan and Turkmenia
Nuclear	
✓ Rosatom — won	Pumps for 2 blocks in China

Source: Public information, Company data as of 25 September, 2012

Corporate financial strategy recap: both growth & dividends

Corporate events after 2Q reporting date…

Large contracts signed after reporting date:
- Delivery and installation of a compressor station in the Komi region, Rub 907 mn (US$ 29 mn)
- Turn-key construction of an oil treatment plant on the Dulisma oil & gas condensate field, Rub 1,578 (US$ 49 mn)
- Turn-key reconstruction of 3 water pump stations in Turkmenistan, US$ 85 mn

Acquisition of KazanKompressorMash (July 2012):
- Access to the new adjacent compressor market, which has strong mid-term growth prospects
- Strengthening of presence in the core markets, given cross-sale opportunities with existing client base
- Visible synergies and low integration costs

Acquisition of Apollo Goessnitz GmBH (August 2012):
- Leveraging HMS channels for new products sale for Russian oil refineries and petrochemical plants
- Leveraging complimentary sales networks to expand HMS export revenue
- New expertise in off-shore projects

Refinancing of the short-term debt (September 2012):
- Liquidity position improvement in line with the strategy to have not less than 2/3 as a long-term debt: the reason for S&P\s Negative outlook was eliminated

… do not affect HMS' corporate financial policy

Core points of the corporate financial strategy:

- ✓ Commitment to pay dividends (not less than 25% of IFRS net profit)
- ✓ Funding of the business growth:
  - with debt facilities (until Net debt/EBITDA <= 2.5)
  - potential equity raising in the mid-term prospects with reasonable price
- ✓ Prudent debt policy:
  - at least 2/3 of credit portfolio is long-term debt (currently 86%)
  - negligible exposure to currency risks (more than 90% of debt in Ruble
- ✓ Buyback (US$ 25 mn) mechanism approved and ready to be implemented in case of market disruption
- ✓ Operating results improvements and delivery of promises

Contacts and HMS Group Key Details

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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 B+ (Outlook negative) downgraded on 24 July, 2012

APPENDIX

Statement of Financial Position

	Note	30 June 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	5	8,782,425	8,225,805
Other intangible assets	6	421,922	497,871
Goodwill	7	2,359,726	2,359,726
Investments in associates	9	131,762	129,805
Advances for acquisition of subsidiary	33	5,513,872	-
Deferred income tax assets		281,948	207,383
Other long-term receivables	13	137,439	62,873
Total non-current assets		**17,629,094**	**11,483,463**
Current assets:			
Inventories	11	5,815,698	4,677,514
Trade and other receivables and other financial assets	12	12,027,136	10,147,963
Current income tax receivable		76,961	33,556
Cash and cash equivalents	10	1,253,467	1,598,463
Restricted cash	10	59,968	25,313
		19,233,230	**16,482,809**
Non-current assets held for sale		49,402	49,402
Total current assets		**19,282,632**	**16,532,211**
TOTAL ASSETS		**36,911,726**	**28,015,674**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20	48,329	48,329
Share premium	20	3,523,535	3,523,535
Other reserves		122,852	122,852
Currency translation reserve		(201,882)	(228,760)
Retained earnings		5,458,367	6,116,729
Equity attributable to the shareholders of the Company		**8,951,201**	**9,582,685**
Non-controlling interest		**2,569,593**	**2,477,177**
TOTAL EQUITY		**11,520,794**	**12,059,862**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	14	9,072,813	4,433,984
Deferred income tax liability		695,669	1,091,372
Pension liability	15	354,958	334,267
Provisions for liabilities and charges	19	55,987	31,352
Other long-term payables		11,568	20,971
Total non-current liabilities		**10,190,995**	**5,911,946**
Current liabilities:			
Trade and other payables	17	10,517,011	6,646,612
Short-term borrowings	14	2,848,247	1,973,886
Provisions for liabilities and charges	19	613,201	452,649
Finance lease liability		-	9
Pension liability	15	31,208	32,333
Current income tax payable		54,609	293,640
Other taxes payable	18	1,135,661	644,737
Total current liabilities		**15,199,937**	**10,043,866**
TOTAL LIABILITIES		**25,390,932**	**15,955,812**
TOTAL EQUITY AND LIABILITIES		**36,911,726**	**28,015,674**

Statement of Comprehensive Income

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue	23	14,938,838	13,857,464
Cost of sales	24	(10,688,368)	(9,587,465)
Gross profit		**4,250,470**	**4,269,999**
Distribution and transportation expenses	25	(634,099)	(387,385)
General and administrative expenses	26	(1,814,511)	(997,036)
Other operating expenses, net	27	(119,159)	(143,071)
Operating profit		**1,682,701**	**2,742,507**
Finance income	28	47,265	7,981
Finance costs	29	(470,245)	(206,740)
Share of results of associates	9	695	36,976
Profit before income tax		**1,260,416**	**2,580,724**
Income tax expense	22	(291,273)	(498,760)
Profit for the period		**969,143**	**2,081,964**
Profit attributable to:			
Shareholders of the Company		844,891	1,989,928
Non-controlling interest		124,252	92,036
Profit for the period		**969,143**	**2,081,964**
Currency translation differences		50,331	(238,951)
Currency translation differences of associates	9	1,262	(6,791)
Other comprehensive income/(loss) for the period		**51,593**	**(245,742)**
Total comprehensive income for the period		**1,020,736**	**1,836,222**
Total comprehensive income attributable to:			
Shareholders of the Company		871,769	1,806,767
Non-controlling interest		148,967	29,455
Total comprehensive income for the period		**1,020,736**	**1,836,222**
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	20	7.21	17.44

Cash Flow Statement

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Cash flows from operating activities			
Profit before income tax		1,260,416	2,580,724
Adjustments for:			
Depreciation and amortisation	5,6	410,171	302,546
Loss from disposal of property, plant and equipment and intangible assets	27	14,259	6,364
Finance income	28	(47,265)	(7,981)
Finance costs	29	470,245	206,740
Pension expenses	15	30,388	1,102
Warranty provision	19,24	39,200	(35,738)
Impairment of taxes receivable	27	11,742	-
Interest expense related to construction contracts		-	2,594
Provision for impairment of accounts receivable	26	8,669	(83,795)
Investments impairment provision	27	-	341
Provision for obsolete inventories	24	33,694	26,183
Provision for VAT receivable	26	3,646	(11,327)
Foreign exchange (income)/loss, net	27	(4,647)	49,064
Provision for legal claims	19,26	(15,005)	(18,313)
Share of results of associates	9	(695)	(36,976)
Net monetary effect on non-operating items		25,630	-
Other non-cash items		-	(468)
Operating cash flows before working capital changes		**2,240,448**	**2,981,060**
Increase in inventories		(1,162,531)	(769,019)
(Increase)/decrease in trade and other receivables		(2,005,509)	1,640,600
Increase/(decrease) in other taxes payable		457,960	(243,103)
Increase/(decrease) in accounts payable and accrued liabilities		4,137,550	(4,521,724)
Restricted cash	10	(34,655)	219
Cash generated from/(used in) operations		**3,633,263**	**(911,967)**
Income tax paid		(961,405)	(311,625)
Interest paid		(334,837)	(195,798)
Net cash from/(used in) operating activities		**2,337,021**	**(1,419,390)**
Cash flows from investing activities			
Repayment of loans advanced		5,897	-
Loans advanced		(11,062)	-
Proceeds from sale of property, plant and equipment and intangible assets		3,024	7,683
Interest received		42	-
Dividends received		976	14,002
Purchase of property, plant and equipment		(833,265)	(438,160)
Acquisition of intangible assets		(24,925)	(29,888)
Acquisition of subsidiaries, net of cash acquired	8	(205,940)	(1,280,000)
Advances paid for acquisition of subsidiary	33	(5,503,756)	-
Net cash used in investing activities		**(6,569,009)**	**(1,726,363)**
Cash flows from financing activities			
Repayments of borrowings		(5,688,850)	(6,262,415)
Proceeds from borrowings		11,095,882	6,214,859
Payment for finance lease		(9)	(6,157)
Proceeds from share issue		-	3,517,161
Expenses related to share issue		-	(144,645)
Acquisition of non-controlling interest in subsidiaries		(43)	-
Dividends paid to non-controlling shareholders of subsidiaries		(449)	(15,863)
Dividends paid to the shareholders of the Company	20	(1,499,692)	-
Net cash from financing activities		**3,906,839**	**3,302,940**
Net (decrease)/increase in cash and cash equivalents		**(325,149)**	**157,187**
Inflation effect on cash		**(572)**	**-**
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency		**(19,275)**	**(14,274)**
Cash and cash equivalents at the beginning of the period		**1,598,463**	**351,086**
Cash and cash equivalents at the end of the period		**1,253,467**	**493,999**

Calculations

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 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 Short-term borrowings
- 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, 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 Finance lease liability minus Current income tax payable minus Other taxes payable
- 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

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