HMS Group

3 months 2013 IFRS Results
Conference call presentation

10 June 2013

Financial Highlights

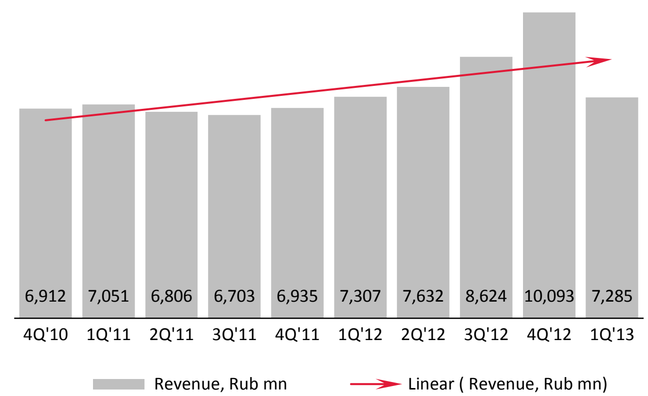
Financial highlights, Rub mn

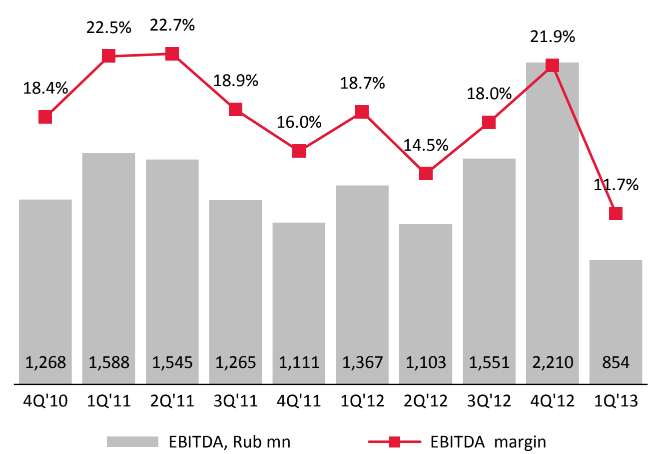
4Q'12	1Q'13	chg, qoq		1Q'12	1Q'13	chg, yoy
10,093	7,285	-28%	Revenue	7,307	7,285	0%
3,279	1,674	-49%	Gross profit	2,038	1,674	-18%
2,210	854	-61%	EBITDA [1]	1,367	854	-38%
1,465	387	-74%	Operating profit	834	387	-54%
808	26	-97%	Net income [1]	485	26	-95%
13,410	15,195	+13%	Total debt	10,034	15,195	+51%
12,064	14,150	+17%	Net debt [2]	5,488	14,150	+158%
1.9	2.5		Net debt to EBITDA	1.0	2.5	
32.5%	23.0%	-950 bps	Gross margin	27.9%	23.0%	-491 bps
21.9%	11.7%	-1,018 bps	EBITDA margin [1]	18.7%	11.7%	-699 bps
14.5%	5.3%	-920 bps	Operating margin	11.4%	5.3%	-610 bps
8.0%	0.4%	-765 bps	Net income margin	6.6%	0.4%	-628 bps
			ROCE [3]	23.3%	14.8%	
			ROE [4]	4.6%	0.2%	

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] Net debt = Total debt – Cash & cash equivalents
[3] ROCE = EBIT LTM / average capital employed
[4] ROE = total equity period average / profit for the year

Key figures

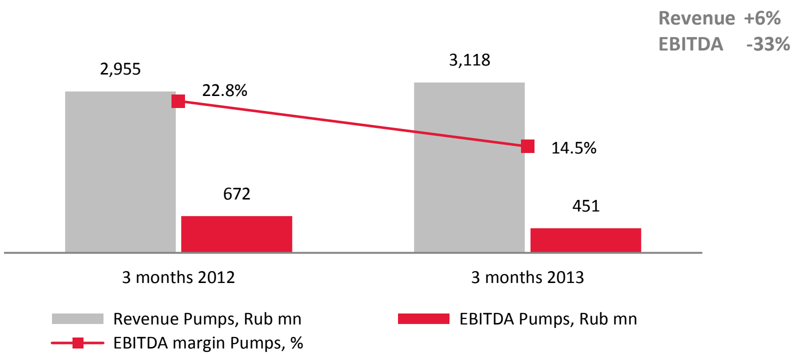




Source: Company data

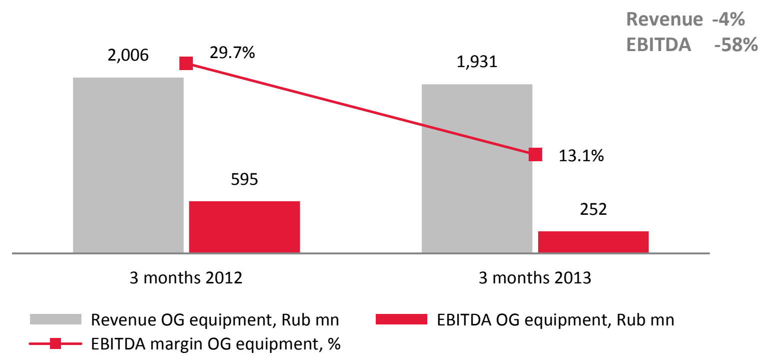
Segments overview

Pumps



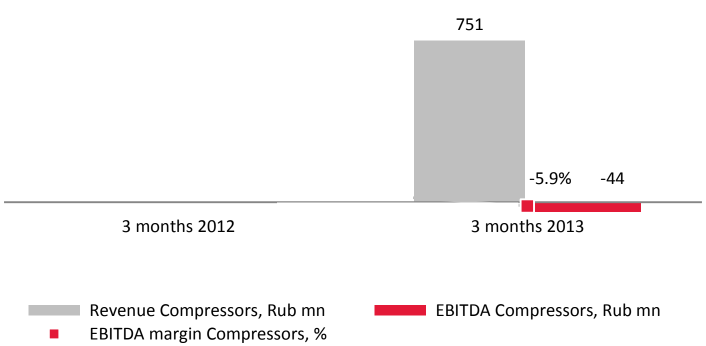
- Completion of the production stage under the follow-up ESPO project in Q4 2012 and preparation for delivery stage (testing &assembling) resulted in a lower share of revenue from integrated solution in Q1 2013 and affected EBITDA margin.
- Strong inflow of orders for standard pumps and pump-based equipment in 2012 led to 6% YoY revenue growth

Oil & gas equipment



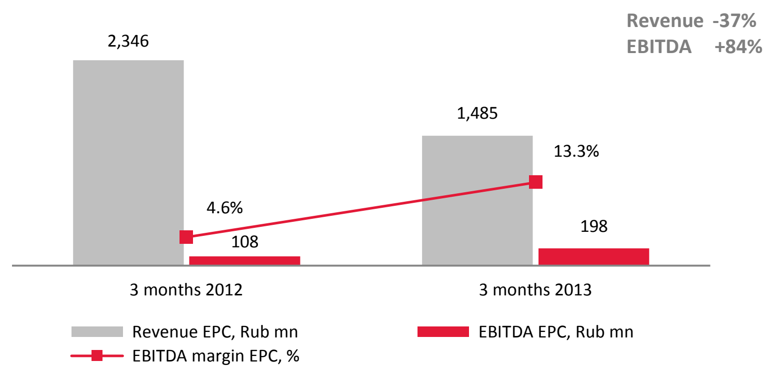
- Lack of the large-scale infrastructure projects, similar to those implemented in H1 2012 led to EBITDA margin decline to 13.1%, driven by
- Material Vankor-related contract was substituted by a number of small and mid-size orders for standard pump-stations, metering units, oil and gas processing equipment, which allowed to maintain revenue volumes (-6% YoY)

Compressors



- Due to the schedule terms under contracts mainly signed in H1 2012, KKM completed a number of contracts with lower profitability and in the reporting period.
- Lower planned volumes in Q1 2013, as compared to the deliveries scheduled for the rest of the year, led to operating loss in the reporting quarter, which is expected to be offset in coming quarters.

EPC



- Stronger focus on profitability of construction contracts and expected efficiency improvements in the project and design business led to EBITDA margin of 13.3%

Source: Company data

Cost analysis

Cost of sales

	3m 2012	3m 2013	chg, yoy
Cost of sales	**5,269**	**5,610**	+6%
% of revenue	72.1%	77.0%	
Supplies and raw materials	2,649	2,228	-16%
% of revenue	36.2%	30.6%	
Labour costs	1,444	1,550	+7%
% of revenue	19.8%	21.3%	
Cost of goods sold	258	638	+147%
% of revenue	3.5%	8.8%	
Other expenses	919	1,194	+30%
% of revenue	12.6%	16.4%	

Comments

Cost of sales grew in line with inflation by 6% YoY driven by consolidation of acquired companies.

- Supplies and raw materials **declined by 16% YoY** due to changes in project mix and lower share of integrated solutions
- Labour costs grew by 7% YoY, driven by consolidation of acquired companies.
- Other expenses grew by 0.3% driven by higher utilities tariffs, amid contraction of transport expenses

Cost of sales grew from 72.1% to 77.0% of revenue due to a lower share of integrated solutions

Distribution & transportation expenses

	3m 2012	3m 2013	chg, yoy
Distribution & transportation expenses	**306**	**285**	-7%
% of revenue	4.2%	3.9%	
Transportation expenses	120	92	-23%
% of revenue	1.6%	1.3%	
Labour costs	104	113	+9%
% of revenue	1.4%	1.5%	
Lease expenses	1	12	11x
% of revenue	0.0%	0.2%	
Other expenses	82	69	-16%
% of revenue	1.1%	0.9%	

Distribution and transportation costs declined by 7% YoY from 4.2% to 3.9% of revenue

- Transportation expenses contracted by 23% YoY due to changes in project mix and lower share of remotely located projects under execution
- Labour costs grew by 9%, driven by consolidation of acquired companies.

General & administrative expenses

	3m 2012	3m 2013	chg, yoy
General & administrative expenses	**747**	**948**	+27%
% of revenue	10.2%	13.0%	
Labour costs	477	638	+34%
% of revenue	6.5%	8.8%	
Depreciation & amortization	42	49	+16%
% of revenue	0.6%	0.7%	
Taxes and duties	29	47	+59%
% of revenue	0.4%	0.6%	
Other expenses	199	214	+8%
% of revenue	2.7%	2.9%	

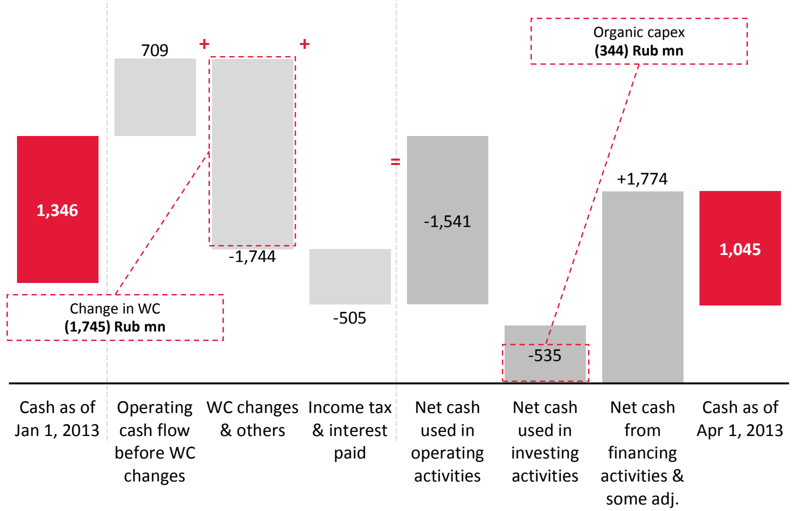
G&A costs grew by 27% mainly due to:

- Labour costs 34% growth was mainly driven by consolidation of acquired companies and new staff employment in production and sales departments.

Source: Company data

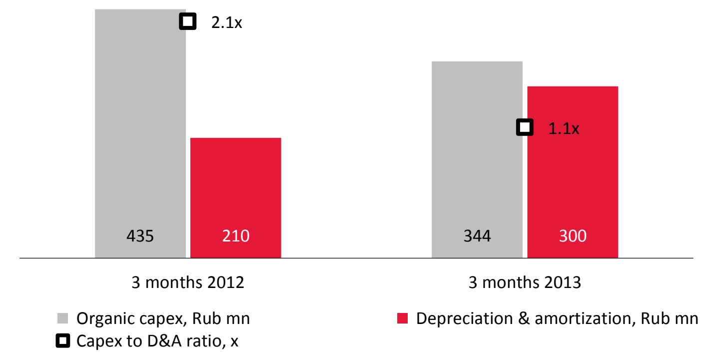
CAPEX & Working Capital

Cash flow performance in 1Q 2013, Rub mn



Source: Company data

Capital expenditures[2] in 1Q 2013 vs. 1Q 2012

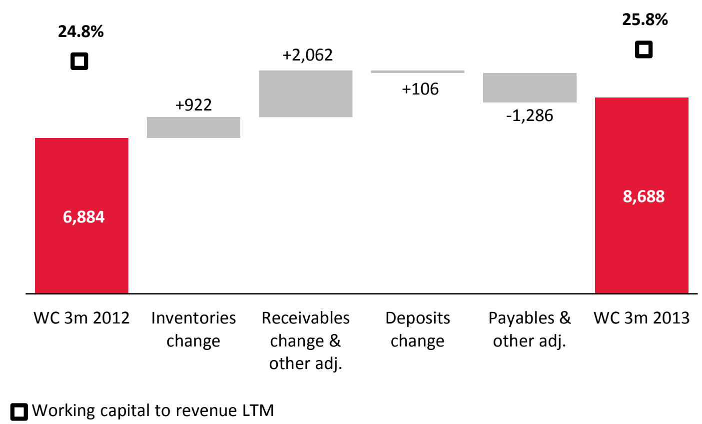


Source: Company data

Comments

- Operating cash flow before working capital changes decreased to Rub 709 mn, compared to Rub 1,189 mn in 1Q 2012
- Working capital[1] amounted to 25.8% of revenue LTM, compared to 24.8% last period
- Net working capital increase led to cash outflow from operating activities of Rub 1.5 bn, compared to net cash outflow of Rub 0.2 bn in 1Q 2012
- Organic capex decreased to Rub 300 mn from Rub 435 mn last year, as a result Capex to D&A ratio decreased substantially - to 1.1x

Working capital



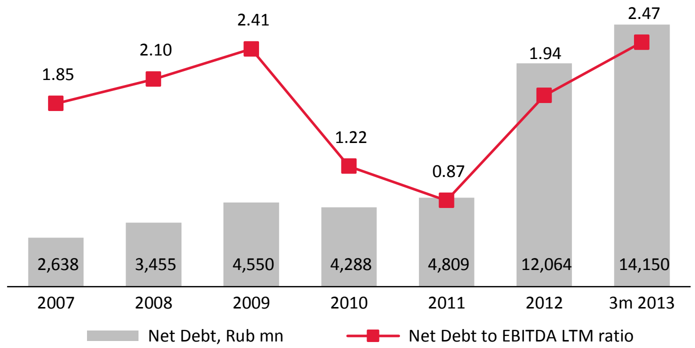
[1] Working capital formula see slide 12

[2] Capital expenditures here equals Organic capex = Purchase of PPE + Purchase of intangible assets

Source: Company data

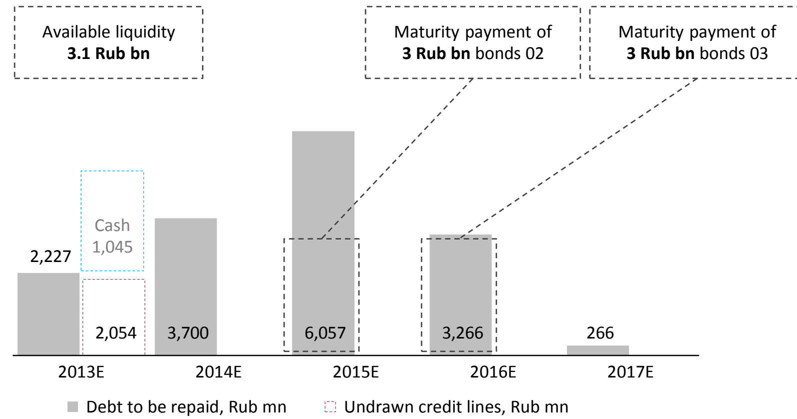
Financial position

Net debt to EBITDA ratio



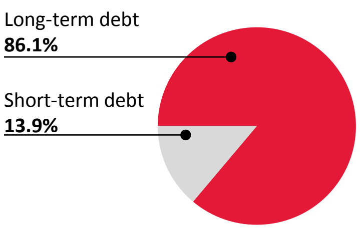
Source: Company data

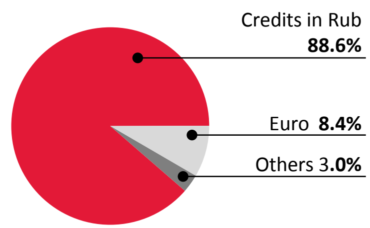
Comfortable repayment schedule

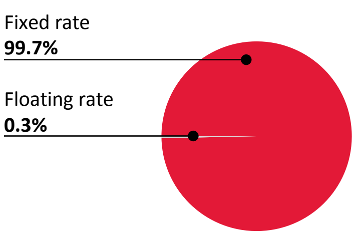


Source: Company data as of 01 April, 2013

Low currency and maturity risks







S&P corporate credit rating : **B+**
Outlook: **Stable**
Upgrade on 31 Jan 2013

Source: Company data as of 01 June, 2013

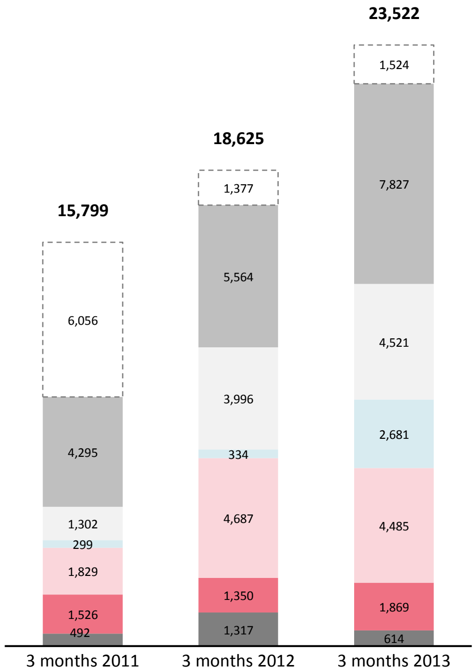
Comments

- In Q1 2013 net debt grew by 17% QoQ due to financing of working capital needs
- Net Debt to EBITDA LTM ratio reached 2.47x, but this level is much lower than banks' covenants
- 3 months 2013 Interest coverage ratio[1] equals 2.8x, while available liquidity of Rub 3.1 bn fully covers 2013E debt repayments
- Average interest rate was 9.4% as of 1 June 2013

[1] EBIT LTM / Interest expenses LTM

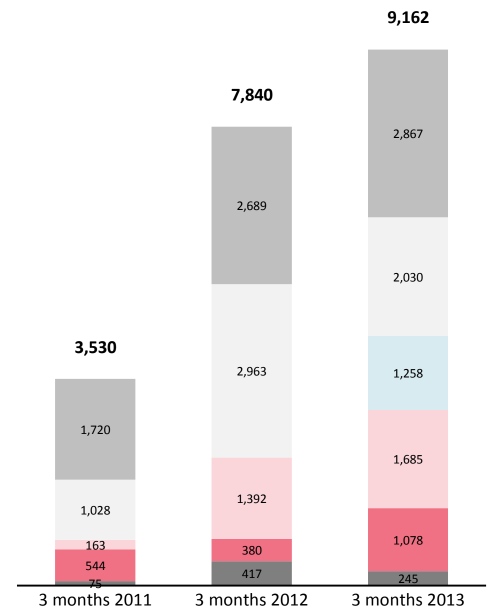
Backlog & Order intake

Backlog in 1Qs 2011-2013



	3 months 2011		3 months 2012		3 months 2013
ESPO pumps	6,056	-77%	1,377	+11%	1,524
Pumps excl ESPO	4,295	+30%	5,564	+41%	7,827
Oil & Gas equipment	1,302	+207%	3,996	+13%	4,521
Compressors	299	+12%	334	+702%	2,681
EPC: Construction	1,829	+156%	4,687	-4%	4,485
EPC: Project & Design	1,526	-12%	1,350	+38%	1,869
Others	492	+168%	1,317	-53%	614
Total	15,799	+18%	18,625	+26%	23,522
Total without ESPO	9,743	+77%	17,248	+28%	21,998
ESPO pumps: old	6,056	-77%	1,377	-100%	0
ESPO pumps: new	0		0	n/a	1,524

Order intake in 1Qs 2011-2013



	3 months 2011		3 months 2012		3 months 2013
ESPO pumps					
Pumps excl ESPO	1,720	+56%	2,689	+7%	2,867
Oil & Gas equipment	1,028	+188%	2,963	-31%	2,030
Compressors		n/a		n/a	1,258
EPC: Construction	163	+753%	1,392	+21%	1,685
EPC: Project & Design	544	-30%	380	+184%	1,078
Others	75	+459%	417	-41%	245
Total	3,530	+122%	7,840	+17%	9,162
Total without ESPO	3,530	+122%	7,840	+17%	9,162
ESPO pumps: old					
ESPO pumps: new					

Source: Company data, Management accounts

Contacts

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

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

Calculations and formulas

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** 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
- **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 **Current income tax payable** minus **Other taxes payable**. In 2011, Working capital was adjusted for working capital of acquired DGHM (Rub 309 mn)
- **ROCE** is calculated as **EBIT LTM** divided by **Average Capital Employed** (**Total debt + Total equity**)

- **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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