HMS Group
1Q 2012 IFRS Results
Webcast Presentation

14 June 2012

HMS GROUP

HMS Group Financial Highlights

Financial highlights

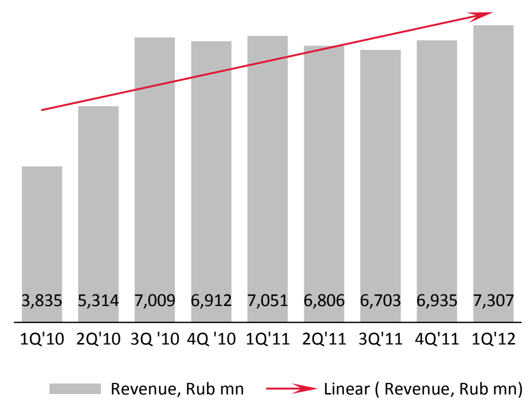
1Q'12	4Q'11	chg, QoQ	Rub, mn	1Q'12	1Q'11	chg, YoY
7,307	6,935	+5%	Revenue	7,307	7,051	+4%
2,043	2,026	+1%	Gross profit	2,043	2,059	-1%
1,367	1,111	+23%	EBITDA [1]	1,367	1,588	-14%
834	636	+31%	Operating profit	834	1,378	-39%
485	405	+20%	Net income (loss) [1]	485	991	-51%
10,034	6,408	+57%	Total debt	10,034	2,683	+274%
5,479	4,784	+15%	Net debt	5,479	1,994	+175%
1.0	0.9		Net debt to EBITDA LTM	1.0	0.4	
28.0%	29.2%	-125bps	Gross margin	28.0%	29.2%	-125bps
18.7%	16.0%	+269bps	EBITDA margin [1]	18.7%	22.5%	-382bps
11.4%	9.2%	+225bps	Operating margin	11.4%	19.5%	-813bps
6.6%	5.8%	+80bps	Net income margin	6.6%	14.0%	-741bps
			ROCE [2]	25.7%	46.2%	-2,057bps

Source: Company data

[1] Hereinafter, read EBITDA as EBITDA adjusted, Net income as Profit for the period / year, EBITDA margin as EBITDA adjusted margin

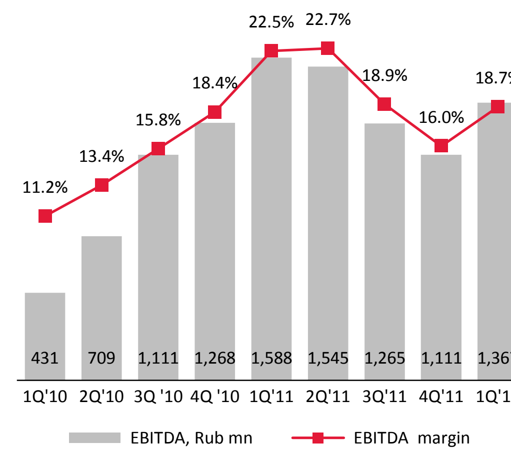
[2] EBIT LTM / average capital employed

Revenue performance



Source: Company data

EBITDA performance

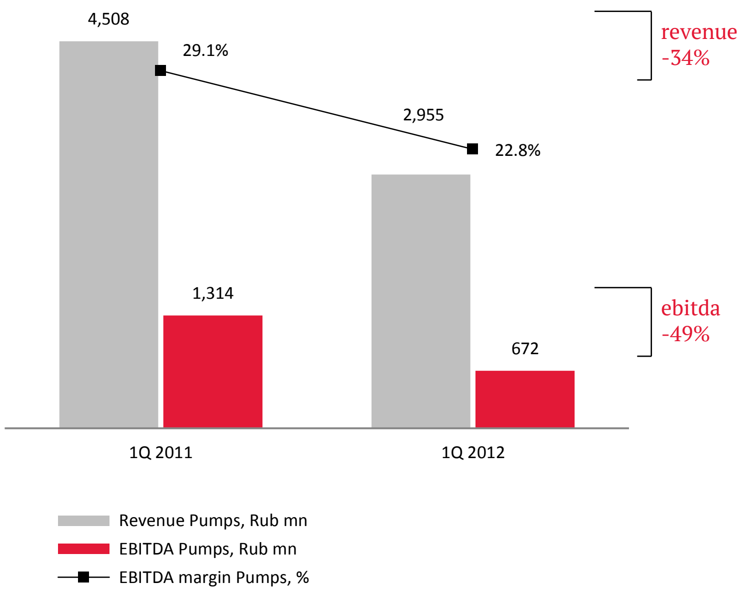


Source: Company data

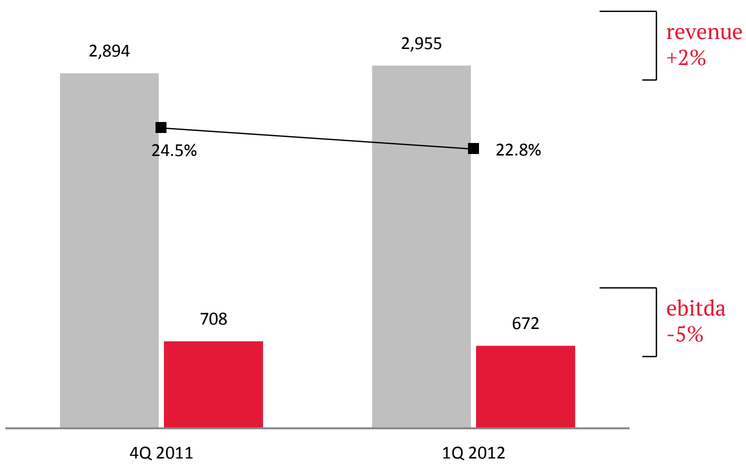
Pumps

Industrial pumps: the segment's performance

- **1Q 2012 vs. 1Q 2011**



- **1Q 2012 vs. 4Q 2011**



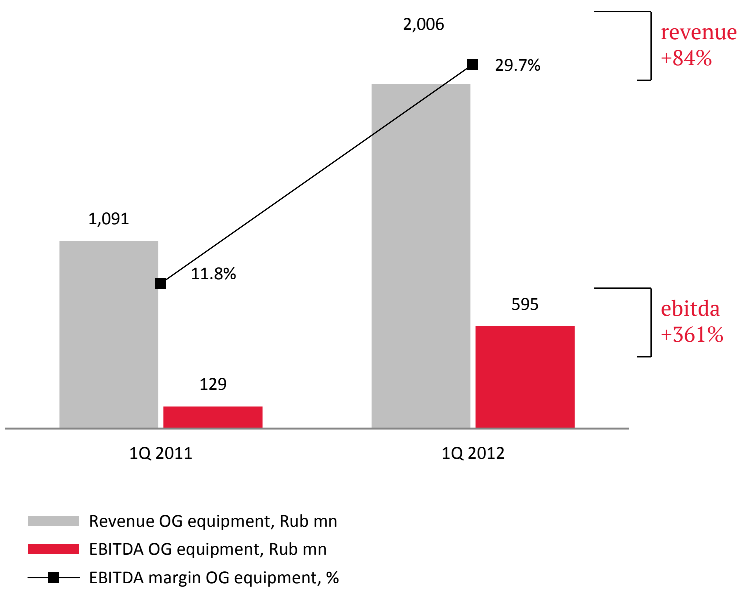
Source: Company data

- In 1Q 2012 industrial pumps business segment's external revenues contracted by 34% yoy mainly due to a high-base effect, caused by a significant amount of the ESPO-related revenue recognized in 1Q 2011. The ESPO-related revenue in 1Q 2012 accounted for just 13% of the segment's revenue
- However, the segment's revenue growth, excluding the ESPO-generated revenue, turned very strong at the level of 56% yoy
- EBITDA declined by 49% year-on-year in the first quarter of 2012 to Rub 672 million, compared to Rub 1,314 million in the same period of 2011

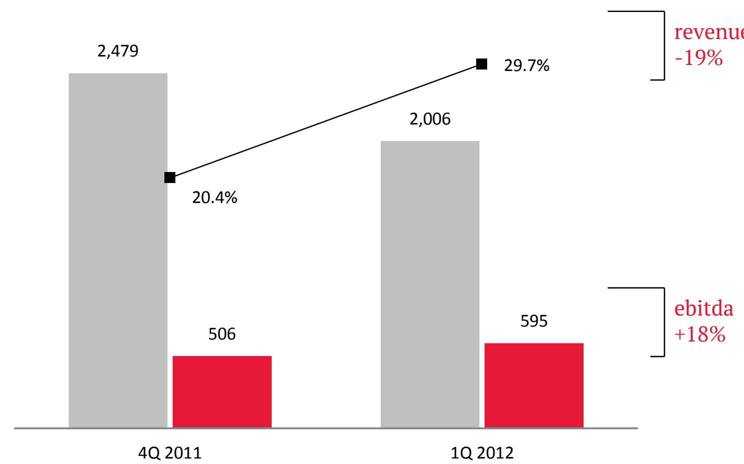
Oil & Gas Equipment

Oil & gas equipment: segment's performance

- **1Q 2012 vs. 1Q 2011**



- **1Q 2012 vs. 4Q 2011**



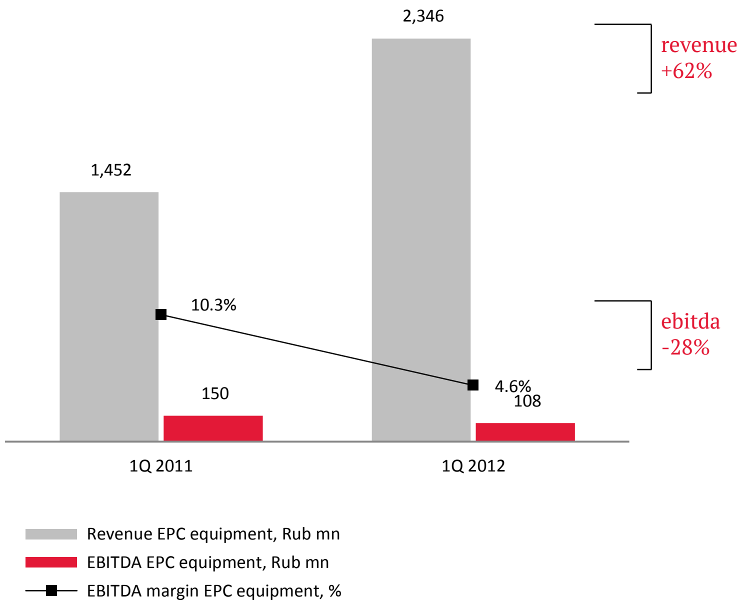
Source: Company data

- The oil and gas equipment business segment's external revenue grew by 84% yoy in 1Q 2012 to Rub 2,006 mn, compared to Rub 1,091 mn in the corresponding period of 2011
- 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 performance.
- Large share of contracts based on innovative integrated solution resulted in strong EBITDA margin of 29.7% versus 11.8% in 1Q 2011 and 20.4% in 4Q 2011

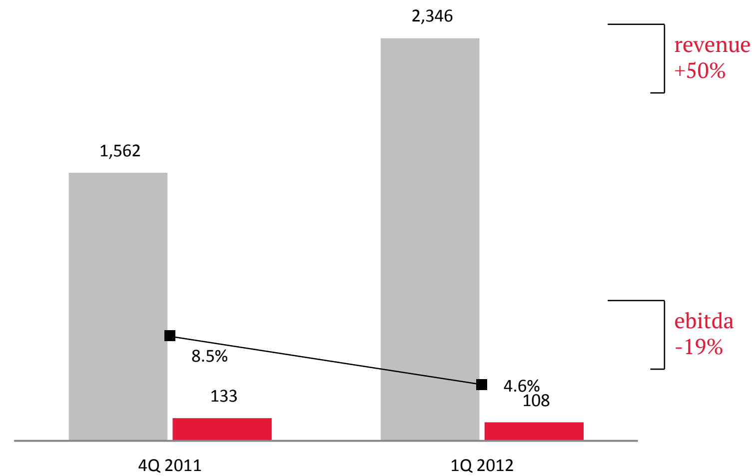
EPC

Engineering, procurement and construction: segment's performance

- **1Q 2012 vs. 1Q 2011**



- **1Q 2012 vs. 4Q 2011**

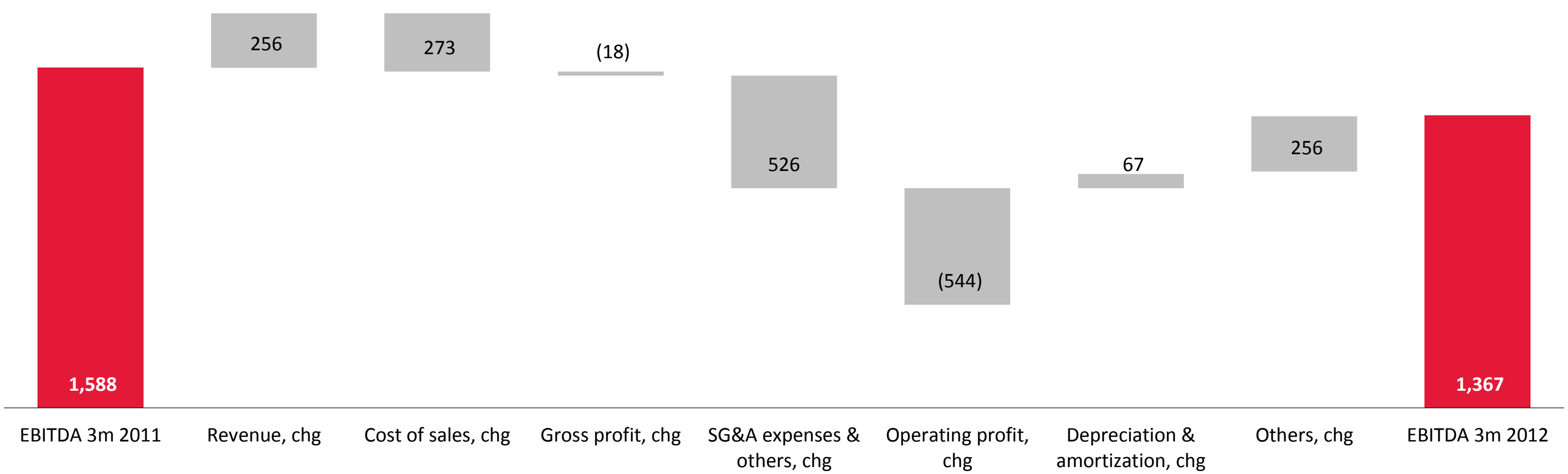


Source: Company data

- External revenue of the EPC business segment grew by 62% year-on-year from Rub 1,452 million in 1Q 2011 to Rub 2,251 million for 1Q 2012 mainly driven by large construction and engineering contracts
- EBITDA in the EPC business segment contracted by 40% yoy to Rub 108 million in 1Q 2012 with average EBITDA margin of 4.6% versus 10.3% in the compared period of the previous year
- Margin contraction resulted from changes in the mix of construction and project and design contracts and lower than expected margin for several new innovative projects in the project and design field that requires additional expenses over the course of the projects implementation as well as a result of temporarily aggressive pricing policy 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 projects, the overall margin for the project is expected to be restored as a result of synergies between different business segments

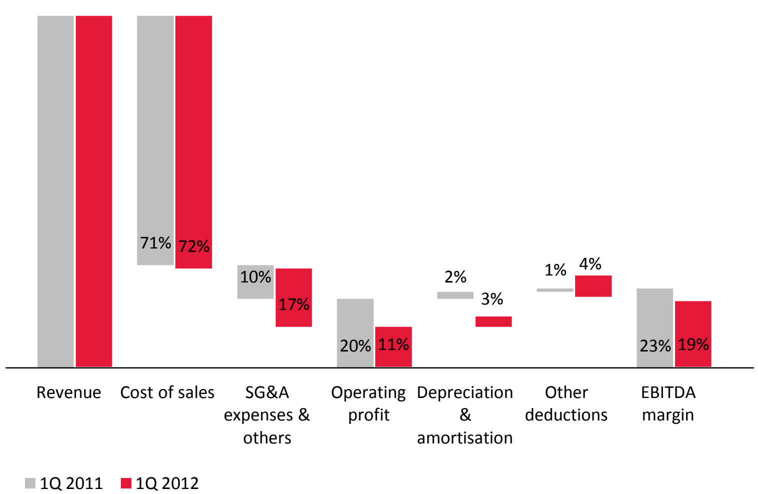
EBITDA Development in 1Q 2012

EBITDA key drivers, Rub mn



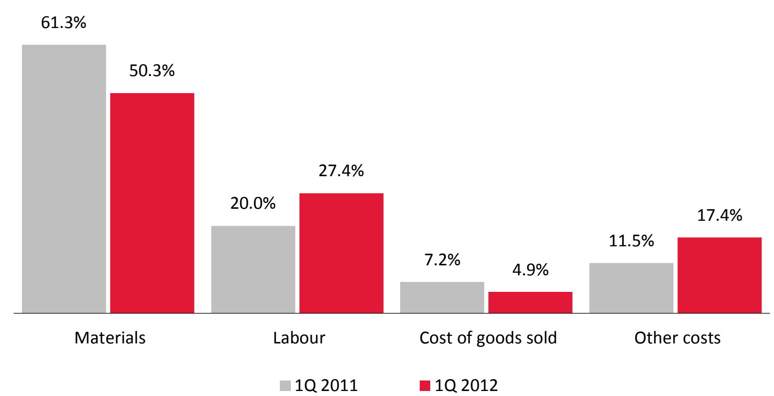
Source: Company data

EBITDA margin 1Q 2011 vs. 1Q 2012



Source: Company data

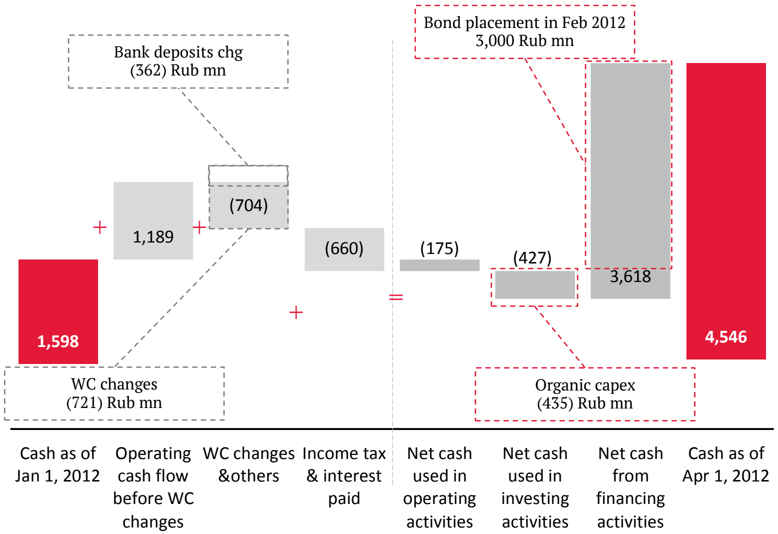
Cost of sales components 1Q 2011 vs. 1Q 2012, %



Source: Company data

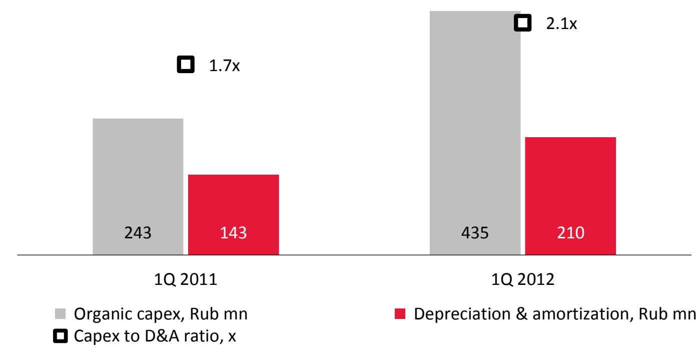
CAPEX & Working Capital in 1Q 2012

Cash flow performance in 1Q 2012, Rub mn



Source: Company data

Capital expenditures[2] in 1Q 2012 vs. 1Q 2011



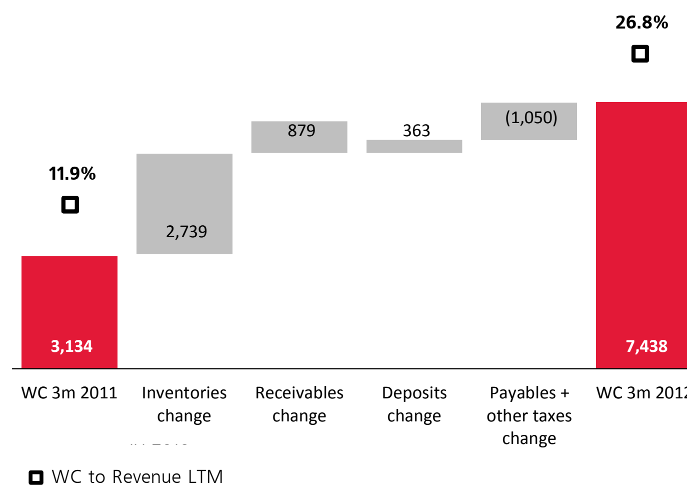
Source: Company data

Comments

- Positive operating cash flow before working capital amounted to Rub 1,189 mn on April 1, 2012
- Due to lower needs of working capital, resulted from completion of the most part of the ESPO project, cash generated from operations amounted to Rub 484 mn versus cash used in operations of Rub 522 mn in the corresponding period of the last year
- Net cash outflow from operating activities in the first quarter contracted to Rub 175 mn, compared to outflow of Rub 822 mn in the same period of 2011
- Net cash outflow from investing activities totaled Rub 427 mn, compared to Rub 241 mn in 1Q 2011, driven by investments in the EPC business segments ahead of the execution of the secured projects
- Working capital[1] amounted to 26.8% of Revenue LTM, compared to 11.9% in 2011

[1] Working capital = Inventories + (Receivables - Banks deposits) - (Payables + Other taxes payable)
[2] Herein, Capex = Organic capex = Purchase of PPE + Purchase of intangible assets

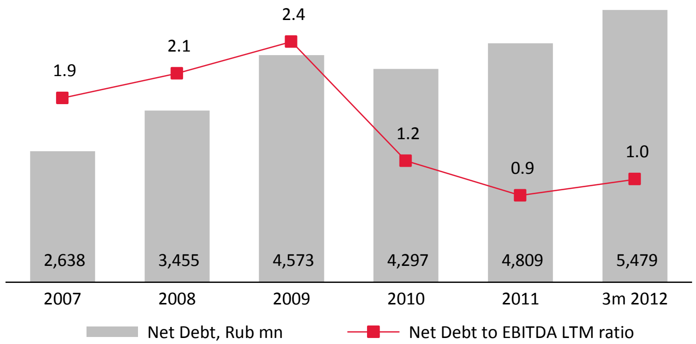
Working capital as of March 31, 2012, Rub mn



Source: Company data

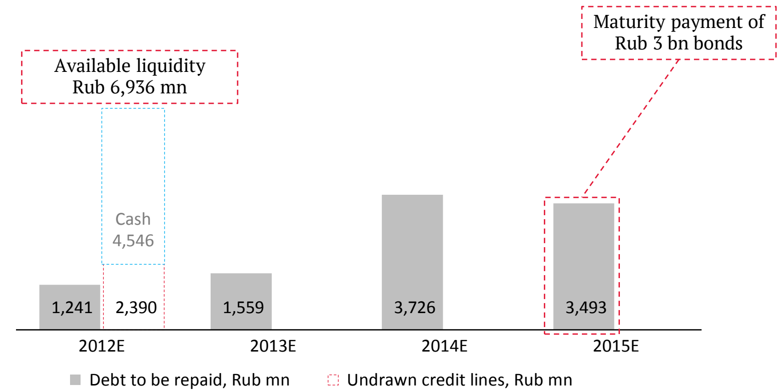
Debt Position

Moderate leverage of HMS Group



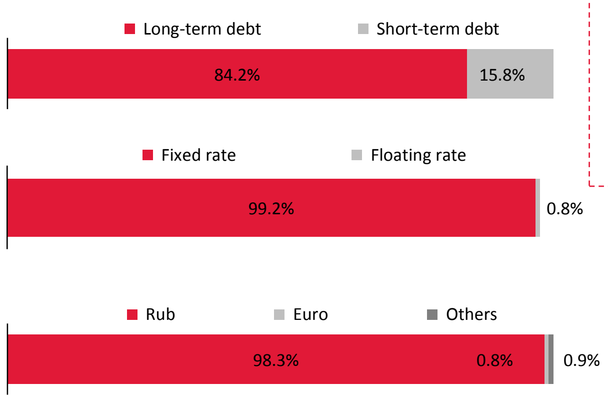
Source: Company data

Comfortable repayment schedule



Source: Company data as of March 31 2012

Low currency and maturity risks



S&P corporate credit rating : **BB-**
Outlook: **Stable**
Affirmed on 29 Nov 2011

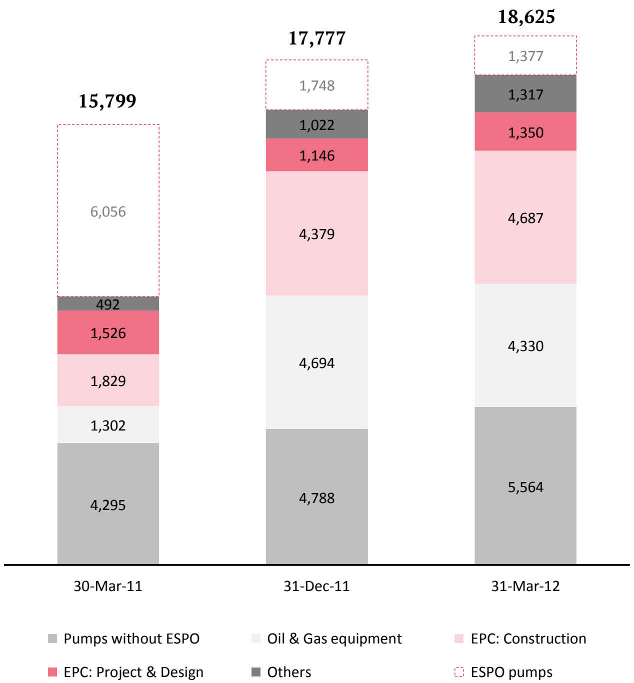
Source: Company data as of March 31, 2012
[1] EBIT LTM / Interest expenses

Comments

- Low leveraged business profile with Net Debt to EBITDA LTM ratio of only 1.0 with internal covenant of 2.5
- Steady debt repayment schedule with negligible currency risk and prudent maturity structure
- More than 98% of Rub-denominated debt with fixed interest rate
- Successful 3-year Ruble bonds placement with coupon of 10.75%, lower cost of debt in comparison with bank loans offered in 1Q 2012
- Available liquidity of Rub 6,936 mn fully covers 2012E repayments
- Interest coverage ratio[1] equals 11.1
- 9.5% average interest rate for loans denominated in Rubles

Backlog in 1Q 2012

Ongoing growth of the backlog



	1Q 2011	1Q 2012	chg, % yoy
Pumps	10,351	6,941	-33%
Pumps without ESPO	4,295	5,564	+30%
Oil & Gas equipment	1,302	4,330	+233%
EPC	3,654	6,037	+65%
EPC: Construction	1,829	4,687	+156%
EPC: Project & Design	1,526	1,350	-12%
Others	492	1,317	+168%
Total	**15,799**	**18,625**	**+18%**

Source: Company data, Management accounts

Note:
Compressors are removed from Others and included in Oil & gas equipment (1Q 2011 – Rub 299 mn, 4Q 2011 – Rub 546 mn, 1Q 2012 – Rub 334 mn)

Comments

In 1Q 2012, backlog under management accounts continued to grow, going up by 18% yoy and 5% qoq, amounting to Rub 18,625 mn

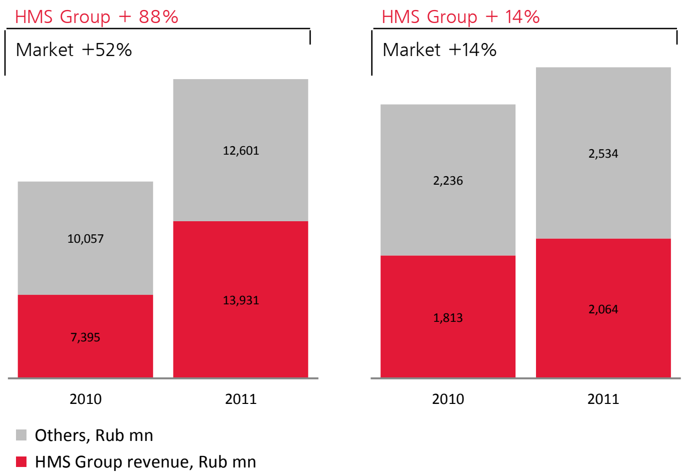
- The backlog in the industrial pumps contracted by 33% yoy due to recognition of the most part of revenue, generated by the ESPO contract
- However, the backlog in the industrial pumps, excluding the ESPO, grew by 30% yoy
- The backlog in the oil & gas equipment segment grew by 233% yoy and amounted to Rub 4,330 mn, driven by large-scale projects based on integrated solutions as well as several mid-size contracts for modular equipment, including pump stations and automated group metering units
- EPC backlog rose by 65% yoy to Rub 6,037 mn thanks to significant growth of large construction contracts with healthy margins while the backlog for the project & design services declined by 12% yoy to Rub 1,350mn

2 large contracts signed in April – May 2012
ESPO for Rub 4.6 bn and a Compressors' delivery for Rub 606 mn (ex. VAT)

Business and valuations wrap-up

Growing industry leader....

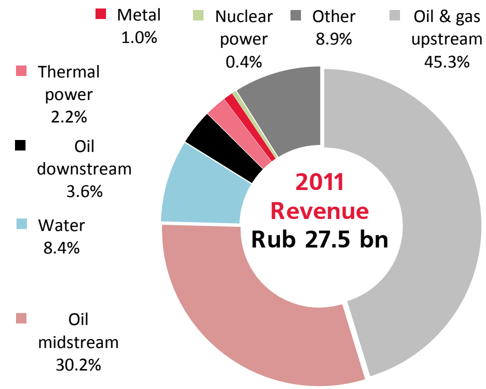
Oil & gas * | **Water utilities** **



Source: Company's estimations, Frost & Sullivan

...operating in attractive markets

Revenue breakdown by industries, 2011



CAGR 2011–2015E

- Oil & gas 14.7%
- Water utilities 19.4%

Source: Company's data, Public sources

...and run by experienced managers-shareholders...

- Company founders still run the business that has been started from scratch
- 19 years of steady growth from the stage of start-up to the industrial holding that generates revenue of almost US$ 1 bn
- Total management team's industry experience of more than 120 years
- Key top-management (CEO, First Deputy CEO, Head of Industrial pumps, Head of Strategic Marketing) are shareholders that reduce agency costs and aligns investors and management targets

...that is currently extremely cheap

	Free-float, $ mn	CAGR Revenue 2007-11	CAGR EBITDA 2007-11	EV/EBITDA 2012E	P/E 2012E
Eurasia Drilling	981	+17%	+19%	5.14	9.50
Integra	206	-15%	-19%	4.22	14.51
CAT oil	92	+6%	+3%	3.90	11.66
TMK	653	+13%	+3%	6.25*	6.40
Average	**483**	**+5%**	**+2%**	**4.88**	**10.52**
HMS Group	153	+17%	+43%	4.00	4.86
Discount				**-18%**	**-54%**

Source: Companies websites, Bloomberg. Data on June 13, 2012
* Current EV/EBITDA

Note:
* Oil & gas includes water injection pumps, pumps for oil refining & petrochemicals, oil pump stations, automated group metering units and associated gas processing and transport units, oil transportation pumps. In CAGR calculation oil transportation is excluded
** Water utilities includes submersible water well pumps, household vibration pumps and pumps for clean water supply

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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

Calculations

HMS GROUP

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 and minus Restricted Cash
- Working capital is calculated as Inventories plus (Trade and other receivables minus Bank deposits) minus (Trade and other payables + Other taxes payable) minus Non-recurring items
- 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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