HMS Group announces management statement and financial highlights for 12 months ended December 31, 2014

Moscow, Russia – April 27, 2015 – HMS Group plc (the "Group") (LSE: HMSG), the leading pump and compressor manufacturer and provider of flow control solutions and related services in Russia and the CIS, today announces its interim management statement and financial highlights for 12 months ended December 31, 2014.

2014 FY HIGHLIGHTS:

- Backlog increased by 23% yoy to Rub 27.5 billion vs. Rub 22.3 billion, while order intake stayed almost flat year-on-year at Rub 34.7 billion, driven by a steady demand despite downturn and economic uncertainty
- Revenue of Rub 32.4 billion stayed unchanged in comparison with 2013
- EBITDA[1] totaled Rub 5.3 billion, up 1% yoy; EBITDA margin was 16.3% compared to 16.2% in 2013
- Operating profit dropped by 80% yoy to Rub 0.9 billion with operating margin at 2.6% versus 12.9% last year
- Operating profit adj., if exclude all non-monetary adjustments[2], was flat at Rub 3.8 billion and operating margin decreased to 11.6% versus 11.8% last year
- Profit for the year was negative Rub 1.6 billion, down from positive Rub 1.2 billion
- Profit for the year adj., if exclude write-offs, grew by 55% yoy to Rub 1.2 billion from Rub 0.8 billion last year
- Total debt grew by 34% yoy to Rub 17.0 billion from Rub 12.7 billion
- Net debt increased by 12% yoy to Rub 12.4 billion resulting in Net debt-to-EBITDA ratio of 2.36x compared to 2.12x last year
- Return on capital employed (ROCE) adj. [3] was 11.1% versus 13.9% in the previous year. If taken without any adjustments, then ROCE dropped to 3.1% compared to 15.8% in 2013

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[1] EBITDA is defined as operating profit/loss from continuing operations adjusted for other operating income/expenses, depreciation and amortisation, 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, provision for impairment of accounts receivable, 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.

[2] Non-monetary adjustments are derived as significant one-off non-cash items including impairment of goodwill, impairment of assets, excess of fair value of net assets acquired over the cost of acquisition, and foreign exchange loss from borrowings.

[3] ROCE adj. is calculated as EBIT divided by (average total debt + average equity), and ROCE is calculated as Operating profit from Consolidated statement of Profit or Loss, divided by (average total debt + average equity).

Commenting on the financial results in respect of FY 2014, Artem Molchanov, Managing Director (CEO) of HMS Group, stated:

"The slowdown in the Russian economy began in 2013, and HMS Group faced problems with its construction sub-segment, which generated losses. The management fixed them by selling one of our loss-making construction companies, Sibkomplektmontazhnaladka, and significantly restructuring along with cost cutting program another construction asset Tomskgazstroy. As a result, EPC segment returned to positive territory in 2014 and showed impressive growth in profitability.

Challenging market conditions in 2014 were further complicated by international sanctions, impacting on the accessibility to credit resources and their borrowing costs, the depreciated ruble and the more than the threefold raise of the key rate. And last year the management faced another difficulty related to the compressors segment and caused by periodic volatility of Kazankompressormash's orders portfolio, but the recent growth of backlog assumes that the problem has been remedied.

Against all the odds, I'm pleased to report on HMS' sustainable operating results in 2014 – stable revenue with a higher EBITDA and EBITDA margin, an increased backlog and a solid order intake.

In 2014, we replaced the large-scale ambitious ESPO project by two new large projects, in total worth over 12 billion rubles. The first contract was to deliver an integrated oil and gas equipment solution for a major Siberian gas field and the second - to deliver equipment for the extraction, transportation and processing of liquid hydrocarbons.

We are working on enhancing HMS' resilience to crisis phenomena and boosting the company's development. In the whole, the company put in great efforts on diversification by:

- clients, where Gazprom became one of the largest customers;
- segments and markets with entrance into a new market of gas projects;
- geographical - with export portfolio exceeding 30% of total pumps backlog.

Though the markets remain highly volatile and current developments are further impacting visibility, I believe that HMS Group will demonstrate better performance in the upcoming period."

OPERATING REVIEW

BACKLOG & ORDER INTAKE

As of December 31, 2014, the Group built its backlog at Rub 27,510 million, up 23% yoy on the back of growth in pumps and oil & gas equipment which demonstrated positive dynamics in the reporting period.

In the pump business segment, the backlog grew by 25% yoy to Rub 11,076 million mainly because of increased inflow of standard equipment orders, where backlog of pumps for export outside Russia grew to Rub 3,641 million.

Backlog grew by 47% yoy in the oil & gas equipment business segment both in large contracts and standard equipment, and achieved Rub 11,610 million as of 31 December 2014.

The compressors dropped by 7% yoy to Rub 2,131 million mainly due to postponements of several large projects to 2015. But in accordance with the methodology backlog by segments is composed without intersegment sales to exclude duplications. Therefore, when considering the compressors business segment as a stand-alone, it should be increased by intragroup sales by more than Rub 1.0 billion so it totals more than Rub 3.1 billion, supporting substantial increase of KKM's revenue and EBITDA in 2015.

If we analyze current business situation with KKM, then we can see that:

- 1Q 2015 RAS[4] revenue – Rub 0.5 billion
- 1Q 2015 RAS backlog with revenue to be recognized in 2015 – Rub 2.2 billion. Herein, please note that RAS and IFRS can differ but in this case we believe that the difference would not be material
- Intragroup contract – Rub 1 billion
- In April 2015 KKM has a number of won tenders and signed contracts worth more than Rub 0.4 billion

Simple addition of the above figures gives us Rub 4.1 billion and suggests that KKM in 2015 will have a significant growth in revenue

The EPC segment's backlog showed negative dynamics with decline by 18% yoy to Rub 2,693 million as a result of delay of some new projects in the project and design (EP) sub-segment due to uncertainties in the economy. At the same time, the backlog of the construction (C) sub-segment grew by 37% yoy.

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[4] Russian Accounting Standards

Backlog, Rub mn	**2013 FY**	**2014 FY**	**Change yoy**
Industrial pumps	8,867	11,076	*25%*
Oil & Gas equipment	7,873	11,610	*47%*
Compressors	2,289	2,131	*-7%*
EPC	3,304	2,693	*-18%*
Construction	1,218	1,671	*37%*
Project and design	2,086	1,022	*-51%*
Total	**22,333**	**27,510**	***+23%***

Order intake[5] in 2014 equaled Rub 34.7 billion and remained almost the same as in 2013. The decrease in consolidated orders for compressors and project and design (EP) was compensated for by growth of orders in all other business segments.

Order intake, Rub mn	**2013 FY**	**2014 FY**	**Change yoy**
Industrial pumps	13,935	15,592	12%
Oil & gas equipment	11,809	13,963	18%
Compressors	3,947	2,168	-45%
EPC	5,123	2,983	-42%
Construction	1,316	1,559	18%
Project and design	3,807	1,424	-63%
Total	**34,814**	**34,705**	0%

GROUP PERFORMANCE

HMS' revenue amounted to Rub 32,351 million, almost the same as in 2013. EBITDA grew by 1% yoy to Rub 5,272 million. As a result, EBITDA margin for 12 months 2014 stayed almost unchanged at 16.3% versus 16.2% last year.

Rub mn	**2013 FY**	**2014 FY**	**Change yoy**
Revenue	32,358	32,351	0%
EBITDA	5,238	5,272	1%
EBITDA margin	16.2%	16.3%	

The Group's cost of sales, which traditionally accounts for about 70-73% of total revenue, grew by 1% yoy from Rub 23,373 million to Rub 23,511 million, driven mainly by growth of supplies and raw materials and labor costs. Combined contribution to the cost of sales from its key components - supplies and raw materials and cost of goods sold – accounted for 41% share of revenue in 2014, the same as in 2013.

[5] Under management accounts

Cost of sales, Rub mn	2013 FY	Share of revenue	2014 FY	Share of revenue	Change yoy
Cost of sales	**23,373**	**72%**	**23,511**	**73%**	**1%**
Supplies and raw materials	10,567	33%	11,238	35%	6%
Labour costs	5,489	17%	5,677	18%	3%
Cost of goods sold	2,799	9%	2,162	7%	-23%
Others	4,518	14%	4,434	14%	-2%

Labour costs grew by 3% yoy to Rub 5,677 million from Rub 5,489 million.

Operating expenses, Rub mn	2013 FY	Share of revenue	2014 FY	Share of revenue	Change yoy
Distribution and transportation	1,352	4%	1,237	4%	-9%
General and administrative	3,860	12%	4,340	13%	12%
Other operating expenses	110	0.3%	222	0.7%	102%
Finance costs	1,741	5%	2,148	7%	23%

Distribution and transportation expenses in absolute terms were down by 9% yoy to Rub 1,237 million rubles in 2014. As a percentage of revenue, they comprised 4% in both periods.

General and administrative expenses totaled Rub 4,340 million for 2014, up 12% yoy, mainly because of 5% yoy growth in labour costs and change in provision for accounts receivable.

Operating profit dropped 80% yoy and totaled Rub 855 million versus Rub 4,179 million in 2013. Operating margin stood at 2.6%. In 2013, the Group posted Rub 439 million impairment of the construction business and Rub 955 million extra gain from the bargain M&A, which contributed Rub 516 million to HMS' operating profit. On the contrary, in 2014 the Group recognized Rub 2,186 million impairment of goodwill, which reflected geopolitical risks and worsened economic conditions in Russia.

If adjusted, the Group's operating profit stayed almost flat at Rub 3,761 million with operating margin adjusted sliding to 11.6% from 11.8%.

Rub mn	2013 FY	2014 FY	Change yoy
Operating profit	**4,179**	**855**	**-80%**
Excess of fair value of net assets acquired over the cost of acquisition	-955	0	
Impairment of assets on construction business, other than goodwill	422	0	
Impairment of goodwill	17	2,186	
Foreign exchange loss from borrowings, net *(from Finance costs)*	160	720	
Operating profit, adj.	**3,823**	**3,761**	**-2%**

The main factor of finance costs 23% yoy growth was a foreign exchange loss, that increased by 351% yoy from Rub 160 million to Rub 720 million for 12 months 2014 primarily due to Euro 26 million loan of HMS Neftemash, attracted for acquisition of Apollo Goessnitz GmbH (Apollo), and an intragroup loan nominated in rubles but transferred in UAH – which together generated 93% of this loss.

Interest expenses decreased by 7% yoy to Rub 1,413 million compared to Rub 1,522 million in 2013 and comprised 4.4% share of total revenue versus 4.7% in the previous year.

Profit for the year adjusted increased by 55% yoy to Rub 1,187 million from Rub 768 million. But if reconciled by one-off non-monetary impairment of goodwill and the effect of foreign exchange loss from borrowings, then loss for the period reached Rub 1,575 million versus profit for the period of Rub 1,156 million last year.

Rub mn	**2013 FY**	**2014 FY**	**Change yoy**
Profit / (Loss) for the year	1,156	-1,575	**-236%**
Excess of fair value of net assets acquired over the cost of acquisition	-955	0	
Impairment of assets on construction business, other than goodwill	422	0	
Impairment of goodwill	17	2,186	
Foreign exchange loss from borrowings, *net of 20% income tax*	128	576	
Profit for the year, adj.	**768**	**1,187**	**55%**

Impairment of goodwill in 2014

On Dec 31, 2014, the Group performed impairment test of goodwill and concluded that of goodwill of KKM, GTNG and IRVKP had to be impaired:

- Kazankompressormash (KKM) – The impairment of Rub 1,003 mn resulted primarily from adjustment in discount rate, reflecting recent changes in Russian economic environment
- Giprotyumenneftegaz (GTNG) – The impairment of Rub 1,111 mn resulted primarily from changes in the future growth and profitability assumptions in order to bring them in line with expected market developments, past performance of the business and from adjustment in discount rate, reflecting recent changes in Russian economy
- Institute Rostovsky Vodokanalproekt (IRVKP) – The full impairment of goodwill of Rub 73 mn due to changes of the future growth and profitability assumptions and adjustment in discount rate

SEGMENT PERFORMANCE

Industrial pumps Business Segment

The industrial pumps business segment designs, engineers, manufactures and supplies a diverse range of pumps and pump-based integrated solutions to customers in the oil and gas, power generation and water utilities sectors in Russia, the CIS and internationally. The business segment's principal products include customized pumps and integrated solution as well as pumps built to standard specifications; it also provides aftermarket maintenance and repair services and other support for its products.

Industrial pumps, Rub mn	2013 FY	2014 FY	Change yoy
Revenue	18,386	16,270	-12%
EBITDA	3,801	3,137	-17%
EBITDA margin	20.7%	19.3%	

The industrial pumps business segment's revenue declined by 12% yoy to Rub 16,270 million from Rub 18,386 million in 2013, while EBITDA dropped by 17% yoy to Rub 3,137 million. EBITDA margin stayed at 19.3% which is higher than average though lower than 20.7% last year.

Stable inflow of small and mid-size orders for standard pumps generated comparable revenue and EBITDA, and large projects earned less revenue and EBITDA in 2014 than in 2013.

Oil & Gas equipment Business Segment

The oil & gas equipment business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.

OG equipment, Rub mn	2013 FY	2014 FY	Change yoy
Revenue	6,972	10,220	47%
EBITDA	929	1,908	105%
EBITDA margin	13.3%	18.7%	

Revenue in the oil & gas equipment business segment demonstrated the 1.5 times sharp growth to Rub 10,220 million and EBITDA grew twofold to Rub 1,908 million despite later than expected start of large-scale projects execution and less orders for standard equipment.

Revenue and EBITDA from standard orders decreased in comparison with the previous year because HMS Neftemash, the main production facility in the oil & gas business segment, reduced its activity in standard production to utilize capacities for large projects execution.

As a result of increased share of integrated solutions, EBITDA margin reached 18.7% versus 13.3% last year.

Compressors Business Segment

The compressors business segment designs, engineers, manufactures and supplies a diverse range of compressors and compressor-based solutions, including compressor units and compressor stations, to customers in the oil and gas, metals and mining and other basic industries in Russia. The business segment's principal products include customized compressors, series-produced compressors built to standard specifications, and compressor-based integrated solutions.

Compressors, Rub mn	2013 FY	2014 FY	Change yoy
Revenue	4,207	2,474	-41%
EBITDA	572	-255	n/a
EBITDA margin	13.6%	-10.3%	

Revenue dropped by 41% yoy to Rub 2,474 million and EBITDA turned negative Rub 255 million in comparison to positive Rub 572 million in 2013. The poor results of the compressors business segment are explained by the postponements of some targeted large tenders and the adjusted schedule of one large project coordinated with a customer due to delay by the client's another subcontractor, located in Donetsk, Ukraine, caused by objective reasons, resulted in insufficient revenue to compensate a constant level of fixed costs.

However, the postponement of this large contract will have positive influence on 2015 results.

The company launched the operational efficiency improvement program to partly compensate the abovementioned delays, and we expect to have more visible results in 2015.

HMS Group expects the compressors business segment to generate better results in 2015, based on the strong already built backlog with a larger share of integrated solutions in orders portfolio.

Engineering, Procurement and Construction (EPC) Business Segment

The engineering, procurement and construction (EPC) business segment provides design and engineering services, project management and construction works for projects for customers in the oil upstream and midstream, gas upstream and water utilities sectors.

EPC, Rub mn	2013 FY	2014 FY	Change yoy
Revenue EPC	2,788	3,355	20%
Project and design	2,189	2,266	4%
Construction	599	1,089	82%

EBITDA EPC	-235	490	-309%
Project and design	230	279	22%
Construction	-465	211	n/a
EBITDA margin EPC	-8.4%	14.6%	
Project and design	10.5%	12.3%	
Construction	-77.6%	19.3%	

The EPC business segment delivered better results in 2014 compared to 2013 with revenue growing by 20% yoy to Rub 3,355 million and EBITDA turning positive to Rub 490 million after business restructuring and cost cutting program implementation in 2013-2014.

Both the project and design sub-segment and the construction sub-segment experienced a growth in profitability in the reporting period, but the latter demonstrated more impressive financial performance in comparison to the previous year.

As a result, the EPC segment's EBITDA margin turned positive and reached 14.6%, versus -8.4% in 2013.

FINANCIAL REVIEW

Cash flow performance

Cash flow performance, Rub mn	2013 FY	2014 FY	Change yoy
Net cash from operating activities	4,523	960	-79%
Net cash used in investing activities	-2,375	-1,077	-55%
Net cash (used in)/from financing activities	-1,918	2,996	-256%
Free cash flow (FCF)	2,148	-118	-105%

Operating cash flow dropped by 79% yoy from Rub 4,523 million to Rub 960 million mainly due to changes in working capital that grew both in absolute figures and as a share of total revenue.

Working capital increased by 32% yoy to Rub 6,836 million and comprised a 21% share of total revenue versus 16% for the previous period. The key factor behind the working capital increase was the growth in receivables and inventories (Rub 2.8 billion in total) related to two large oil & gas equipment contracts under execution.

Absence of M&A deals substantially decreased outflow from investing activities, which equaled Rub -1,077 million (-55% yoy).

Due to current economic downturn, capital expenditures were reduced by 21% yoy and amounted to Rub 1,223 million in comparison with Rub 1,553 million last year. But still HMS

Group is realizing large projects for KKM's modernization and development of manufacture competences for high capacity oil transport pumps and nuclear pumps in Russia.

Rub 2,996 million of net cash inflow from financing activities was a result of borrowings. This amount of money was attracted as a part of preparation for rubles bond redemption in February 2015.

That said, negative free cash flow accounted for only Rub 118 million for 12 months 2014.

Depreciation and amortization went up by 11% yoy primarily due to a 72% yoy increase in amortization expenses on patents and project documentation, related to NIITurbokompressor acquired in 2013, and a 7% yoy growth of depreciation expenses on plant and equipment caused by a complete modernization of HMS Livgidromash's foundry, which in the whole gave 95% of total D&A raise.

Debt and Liquidity position

Debt & Liquidity, Rub mn	2013 FY	2014 FY	Change yoy
Total debt	12,687	16,967	34%
Long-term debt	11,522	13,235	15%
Short-term debt	1,165	3,732	220%
Cash & cash equivalents	1,584	4,535	186%
Net debt	11,103	12,432	12%
Net debt / EBITDA LTM	2.12	2.36	

By the end of 2014, HMS Group increased its total debt by 34% yoy to Rub 16,967 million from Rub 12,687 million as of the end of 2013. The increase in debt was mainly a result of required working capital growth incidental to execution of large projects and a drawdown of available credit lines so as to have sufficient "liquidity cushion" for redemption of the Group's ruble bonds with maturity in February 2015. At the same time, net debt increased only by 12% yoy to Rub 12,432 million.

As a result, the Net debt-to-EBITDA ratio amounted to 2.36x, and under a net debt-to-EBITDA bank maintenance covenant with a 4.50x threshold is implying an ample headroom for the next 12 months.

As of 1 January 2015, despite limited access to capital markets and thus sharp increase in rates thanks to managerial efforts the weighted average interest rate was 10.1% for all loans, including FX-denominated. A solid liquidity position with Rub 4.5 billion in cash covered HMS's short-term debt of Rub 3.4 billion.

FINANCIAL MANAGEMENT

In September 2014, HMS Group made a partial redemption of its Ruble bonds for Rub 900 million excluding accumulated coupon interest. HMS purchased 900,000 bonds at 100% par value. Bonds buy-back was financed by an unsecured non-revolving credit line up to 3 years, lent by Raiffeisenbank at the end of this August. The bank also acted as a purchase agent.

In December 2014, Standard & Poor's Rating Services lowered the long-term corporate rating of the company from "B" to "B-" and placed it on CreditWatch with negative implications. Also, S&P downgraded Rub 5.1 billion notes issued by HMS' subsidiary CJSC "Hydromashservice" to "CCC+" and placed them on CreditWatch negative. According to S&P, the downgrade reflects discomfort about the Rub 2.1 billion unsecured bond repayment in February 2015. At the end of 2014, HMS Group made a decision to withdraw credit ratings of Standard & Poor's.

In January 2015, the company made a partial redemption of its Rubles bonds for Rub 1.9 billion excluding accumulated coupon interest. Though HMS Group made a public offer to acquire the outstanding securities for Rub 2.1 billion at 100% par value, it received claims only for Rub 1.9 billion. The buy-back was financed by both HMS' own funds and credit lines. Raiffeisenbank acted as the purchase agent. As a result of above actions, only Rub 177 million bonds left to be redeemed on maturity date and they were successfully paid off in February 2015.

KEY DEVELOPMENTS IN 2014

Projects on track

In December 2013, the company signed Rub 5.7 billion in contract to supply an integrated solution for a major Siberian gas field. According to the contract, HMS will design, manufacture, deliver, supervise and test the complex technological facility, including compressors, pumps, tanks and vessels, filters, coolers and other components. The project's implementation time is two years.

In 2014, Transneft put into use three oil processing stations with 12 trunk pumps and auxiliary equipment, fully made by HMS Group, under the ESPO-1 extension project. Also, the Group delivered 8 trunk pipeline pump units for the Zapolyarye – Purpe oil pipeline. The project was designed to bring crude oil, produced in the northern areas of the Yamalo-Nenetsk and Krasnoyarsk regions, to markets through the ESPO pipeline.

HMS Group completed full reconstruction of three water-pumping stations of the irrigation channel "Zakhmet-Turkmenkala" under the order of the Ministry of Water Resources of Turkmenistan. The reconstruction included the "turn-key" construction of new pumping stations, and replacing the old ones, in an area with high seismicity of up to 8.0 by MSK-64.

There were 12 main pumping units, each of 3.5 cubic meters per second capacity, and auxiliary pumping units, all specially designed-and-produced-by-HMS with a nominal power rate of 40 MW and capacity over 515 thousand cubic meters per hour in total.

Also, in 2014 the company completed delivery of pumping equipment for the water treatment facility of Qarmat-Ali that will provide a reliable supply of water for injection systems at Rumaila oilfield (BP Iraq NV). The scope of works included a project audit, manufacturing and supply of the main and auxiliary equipment, repair and retrofit of operated equipment, installation supervision and commissioning, acceptance tests in compliance with corporate and project standards of BP.

New developments

In the 1st half of 2014, HMS Group signed a contract with one of the Russian oil & gas majors to deliver oil & gas equipment as part of a large-scale project, the so-called “Liquid Hydrocarbon Project”, which is planned to be fulfilled by the end of 2015.

Last year the company continued the process of entering into foreign markets outside the former USSR, which was translated into the growth of export pumps backlog to Rub 3.6 billion (approx. 33% of the total pumps backlog). The main contribution was made by Iraq contracts with international oil companies, like BP and Lukoil Overseas, and deliveries in China (the China National Nuclear Corporation (CNNC)), which comprised approx. 76% of the total export pumps backlog.

HMS Group intends to further expand its export potential. A pilot project to build export competences has been successfully tested on the pumps business, and we assume that its export sales will continue to gradually increase. In the future, in addition to pumps we plan to focus at the development of export potential of the compressors business.

In 2014, HMS started the process of the development of heavy pumps and pumping equipment manufacturing at HMS Livgidromash and Nizhnevartovskremservis in close cooperation with Nasosenergomash (Ukraine) due to a shortage of production capacity of the latter; the company plans to complete this project by the end of 2015. Within the framework of the project, the company plans to construct a new production unit and a new transformer substation as well as to build a test stand. The new test complex will become the only one of its kind in Russia, enabling the testing of the pumping units installed in the oil pipelines of Transneft and Rosatom’s nuclear power plants.

PRINCIPAL RISKS AND OPPORTUNITIES

HMS Group may be exposed to various political, economic and other risks in its countries of operations (Russia, Ukraine and Belarus). One of the Group’s subsidiaries, Nasosenergomash

(NEM), is located in Sumy, Ukraine. Pumps produced by NEM are primarily sold to Russian customers. For 2014 year and for the year 2013 its revenue approximated 10% of the Group's consolidated revenue. To date, political environment in Ukraine hasn't directly impacted operating activities of NEM. Meanwhile, the Group's management believes, that certain customers may take a conservative and cautious position, when considering the purchase of products made in Ukraine. However, opportunities to change a supplier are limited, as major competitors of NEM are located in the US and Western Europe. Due to these risks, as well as a high-level capacity utilization of NEM, the Group has speeded up the previously developed project aimed at building up the respective competencies within its Russian subsidiaries.

Regular business between Russia and Ukraine is currently under threat. The Group's management doesn't exclude the worst scenario of the development of Ukrainian crisis, which may result in the full termination of goods delivery from Ukraine to Russia.

Since March 2014, the US and EU have imposed sanctions on certain Russian sectors, officials and companies. Sectoral sanctions are authorized, among others, on the energy sector with particular target of the oil exploration and production for deepwater, Arctic offshore and shale projects. Certain Russian oil companies are subjects to capital markets restrictions. HMS Group, not being directly affected by these sanctions, is exposed to associated risks. The Group's management identifies potential risks of reduction of CAPEX programs by Russian oil & gas companies, which can affect the Group's performance due to its large exposure to Russian oil & gas sector.

The US and EU sanctions, imposed on Russian energy sector are limited to the oil exploration and production for deepwater, Arctic offshore and shale projects. The Group's management believes that such situation could catalyze the development of traditional oil & gas projects and as a result the Group may benefit from this situation, as most of its products are used for that type of projects.

Russia may increase import duties for oil & gas equipment to stimulate domestic production. Certain customers have taken a conservative and cautious position when considering the purchase of products made by foreign manufacturers. The Group may benefit from a lower competition with foreign pump producers. Moreover, HMS is already a partner of choice for many Russian oil & gas majors.

Gazprom's "Eastern gas program" is the key project in Russian gas sector targeting the establishment of a new gas export center in Eastern Russia to supply pipeline gas from Russia to the Asian-Pacific region. The Group may benefit from delivery of its compressor equipment for adjacent pipelines to the GTS "The Power of Siberia" and participation in the development of the Chayandinskoye deposit.

Litigations

Grigorishin Litigation. In February 2014, the Company was served in Cyprus with an interim order of the District Court of Nicosia (the "Order"). The Order was obtained by Konstantin Grigorishin and certain other plaintiffs against a number of defendants, including the Company, certain of its shareholders and directors, and Bank of New York (Nominees) Limited. Among other things, the Order froze property of most of the defendants, including the Company, but excluding Bank of New York (Nominees) Limited and two other defendants, for an amount up to EUR 400 million.

In April 2014, following prior written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia discharged the Order in full, including in respect of the Company and its shareholders and directors. As far as the Company is aware, since then the plaintiffs have taken no substantive steps to proceed with their claim against the Company or its directors.

The Company strongly rejects the plaintiffs' claims and allegations against the Company as groundless. The Company will continue to defend vigorously its position in these on-going legal proceedings.

Tsoy Litigation. In late June 2014, the Company's shareholder, German Tsoy, and his holding company, Acura Global Limited (BVI), launched an action in the District Court of Nicosia against a number of defendants, including certain other shareholders and directors of the Company.

The plaintiffs have initiated this litigation purportedly as a derivative action seeking damages "for the benefit of" of the Company "and/or" its majority shareholder, H.M.S. Technologies Limited. As such, no claims have been asserted directly against the Company by the plaintiffs.

The plaintiffs also applied to the Court for interim measures including an application for a freezing order (the "Application") against the defendants, but not the Company. The Company and certain of its shareholders and directors opposed the Application In late March 2015, following prior written submissions against the Application, the plaintiffs withdrew the Application, but not the main action itself.

The Company strongly rejects the plaintiffs' claims and allegations against the Company's directors as groundless. The Company will continue to defend vigorously its position in these on-going legal proceedings.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Borrowings

In February 2015, HMS Group secured a pure contract financing Rub 2.0 billion loan from Sberbank. The 9-month non-revolving credit line with fixed interest rate is being utilized to supply the company's needs in financing of its two oil and gas equipment contracts under execution.

In April 2015, the Group signed an agreement with UniCredit Bank to open a long-term loan facility in the amount of Rub 1.5 billion. This 3-year non-revolving credit line with maturity in April 2018 will be utilized for general corporate needs.

GDR buyback program

On 22 April 2015, the Board of Directors approved a buyback program in respect of Global depositary receipts (GDRs), each representing one ordinary share of the company. The buyback program will be submitted for final approval by HMS' Annual General Meeting (AGM), which is scheduled to be held on 19 June 2015.

Under the terms of the proposed program, the aggregate number of GDRs that may be repurchased shall not exceed 5% of the subscribed capital of the company. The purchases of GDRs pursuant to the program will be conducted during one year from the approval by the AGM on the London Stock Exchange at prevailing market price at the date of such purchase, provided that the purchase price may not exceed 5% of the average market price for the 5 days prior to the acquisition.

The buyback program will end as soon as the aggregate amount of GDRs acquired by the company has reached the maximum amount specified above or, if earlier, upon the expiration of the initial period specified above. The Buyback program will commence following shareholders' approval of the buyback at the AGM.

Purchases pursuant to the buyback program will be conducted either by the company or by any other person acting on behalf of the company through Renaissance Capital or any other independent broker to be determined by the Directors after approval of the buyback (if obtained) at the AGM.

Dividends

On 22 April 2015, the Board of Directors recommended that no dividend should be paid by the company in respect of the financial year ended 31 December 2014.

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WEBCAST TO DISCUSS FY 2014 IFRS FINANCIAL RESULTS

TUESDAY, 28 April 2015
10.00 AM (EST) / 4.00 PM (GMT) / 3.00 PM (CET) / 5.00 PM (MOSCOW)

Speakers:
Kirill Molchanov – First Deputy General Director and Co-Founder
Alexander Rybin – Head of Capital Markets

To participate in the conference call, please dial in:

Russia Local:	7 495 705 9451
UK Local:	44 (0)20 7136 2051
UK Toll Free:	0800 279 5004
US Local:	1 646 254 3366
US Toll Free:	1 877 280 2342

Conference ID:	8817782
Title:	HMS Group FY 2014 IFRS results

Webcast meeting:
To access the live event, click on the link:
HMS Group webcast link

Please, dial in 5-10 minutes prior to the scheduled start time. Pre-registration is available.

For more information, please contact:
Investor Relations
ir@hms.ru

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HMS Group is the leading pump and compressor manufacturer, as well as provider of flow control solutions and related services to the oil and gas, nuclear and thermal power generation and water utilities sectors in Russia and the CIS. HMS Group's products are mission-critical elements of projects across a diverse range of industries. It has participated in a number of large-scale infrastructure projects in Russia, including providing pumps and modular equipment to the Vankor oil field and pumping stations on recent trunk pipelines projects linking Russia's core oil producing areas to export ports on the Pacific Ocean and Baltic Sea. HMS Group's global depositary receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

The forward-looking statements contained herein are based upon various assumptions, many of which are based, in turn, upon further assumptions, which may include without limitation, the HMS Group's examination of historical operating trends, data contained in the HMS Group's records and other data available from third parties. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The HMS Group does not intend to provide any representation or warranty and does not assume any obligation to update any forward-looking statement contained herein.