HMS Group announces management statement and financial highlights for 9 months 2015

Moscow, Russia – December 8, 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 financial results for 9 months ended September 30, 2015.

9 months 2015 financial highlights:

- Revenue up by 25% yoy to Rub 26.6 billion
- EBITDA[1] up by 93% yoy to Rub 5.9 billion
- EBITDA margin up to 22.0%
- Profit for the period up 719% yoy to Rub 2.1 billion
- Net debt up by 14% yoy to Rub 15.4 billion
- Net debt-to-EBITDA LTM down to 1.90x

9 months 2015 operational highlights:

- Backlog down by 12% yoy to Rub 26.1 billion
- Order intake up by 10% yoy to Rub 26.9 billion

[1] Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the management report. For this purpose, adjusted 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.

OPERATING REVIEW

BACKLOG & ORDER INTAKE

Backlog[2] of HMS Group for 9 months 2015 decreased to Rub 26,111 million, down 12% yoy mainly due to a 49% yoy decline in the oil & gas equipment business segment. Taking into account only standard equipment, the backlog grew by 7% yoy.

Backlog, Rub mn	9m 2015	9m 2014	Change yoy
Industrial pumps	9,600	11,006	-13%
Oil & Gas equipment	7,191	14,045	-49%
Compressors	7,442	2,333	219%
EPC	1,877	2,209	-15%
Construction	729	815	-10%
Project and design	1,148	1,394	-18%
Total	**26,111**	**29,592**	**-12%**

In the pump business segment, the backlog declined by 13% yoy to Rub 9,600 million, due to fewer contracts signed for standard equipment.

The oil & gas equipment business segment's backlog declined to Rub 7,191 million, because of ongoing revenues recognition of the Group's large contracts in the oil & gas equipment business segment. However, the standard equipment backlog increased by 28% yoy.

The compressors business segment grew more than threefold and reached Rub 7,442 million not only because of a large Rub 3.5 billion contract signed in the 3rd quarter, but also thanks to a growing number of small- and middle-size orders (+84% yoy).

The EPC segment's backlog was down by 15% yoy to Rub 1,877 million due to a negative dynamics both in the construction and the project & design sub-segments.

Order intake[3] for 9 months 2015 grew to Rub 26.9 billion, up 10% yoy compared to 9 months 2014, mainly because of an increased number of standard equipment orders.

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[2] Backlog is calculated under management accounts 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, including adjustments in compliance with IFRS. 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

[3] Under management accounts, signed contracts during the reporting period

Order intake, Rub mn	9m 2015	9m 2014	Change yoy
Industrial pumps	12,399	11,075	12%
Oil & gas equipment	6,195	10,579	-41%
Compressors	6,893	1,485	364%
EPC	1,381	1,375	0%
Construction	0	315	n/a
Project and design	1,381	1,060	30%
Total	**26,867**	**24,513**	**10%**

GROUP PERFORMANCE

Revenue reached Rub 26,642 million, 25% yoy higher than Rub 21,233 million for 9 months last year. **EBITDA** grew by 93% yoy to Rub 5,873 million. As a result, EBITDA margin for 9 months 2015 reached 22.0% versus 14.3% for the comparative period.

Rub mn	9m 2015	9m 2014	Change yoy
Revenue	26,642	21,233	25%
EBITDA	5,873	3,046	93%
EBITDA margin	22.0%	14.3%	

Higher revenue and EBITDA for 9 months 2015 were a result of large contracts execution in the oil & gas equipment business segment in 2015 and an effect of import substitution which influenced machine-building segments of the Group.

Cost of sales grew by 17% yoy to Rub 18,248 million from Rub 15,632 million, driven by a substantial growth of supplies and raw materials (+33% yoy). Supplies and raw materials expenses combined with cost of goods sold, key components of cost of sales, accounted for 46% share of revenue for 9 months 2015 compared to 42% last year. Share of labour cost in revenue was down to 16% from 20% in the comparative period because of execution of large contracts in the oil & gas business segment, which are more material-intensive and less labour-consuming.

Cost of sales, Rub mn	9m 2015	Share of revenue	9m 2014	Share of revenue	Change yoy
Cost of sales	**18,248**	**68.5%**	**15,632**	**73.6%**	**17%**
Supplies and raw materials	9,866	37.0%	7,425	35.0%	33%
Labour costs	4,338	16.3%	4,228	19.9%	3%
Cost of goods sold	2,346	8.8%	1,402	6.6%	67%
Depreciation and amortization	964	3.6%	926	4.4%	4%
Others	735	2.8%	1,652	7.8%	-56%

Distribution and transportation expenses increased by 2% yoy to Rub 943 million rubles and as a percentage of revenue was down to 3.5% from 4.3% for 9 months 2014.

General and administrative expenses totaled Rub 2,935 million for 9 months 2015, up 4% yoy, primarily because of 3% yoy growth of labour costs. As a share of revenue, general and administrative expenses declined to 11% compared to 13% for 9 months 2014.

In absolute figures, **SG&A expenses**[4] grew by 4% yoy, but in terms of share of revenue decreased to 15% from 18% for 9 months 2014, that is a result of operating leverage, when revenue is growing and labour costs' level in absolute figures is relatively stable.

Total operating expenses[5] grew by 4% yoy to Rub 4,028 million from Rub 3,888 million, but as a percentage of revenue they dropped to 15% from 18% in the comparative period.

Operating expenses, Rub mn	9m 2015	Share of revenue	9m 2014	Share of revenue	Change yoy
Distribution and transportation	943	3.5%	923	4.3%	2%
General and administrative	2,935	11.0%	2,825	13.3%	4%
Other operating expenses	150	0.6%	141	0.7%	6%
Total operating expenses *	**4,028**	**15.1%**	**3,888**	**18.3%**	**4%**
Finance costs	1,642	6.2%	1,332	6.3%	23%

Operating profit was up by 155% to Rub 4,367 million from Rub 1,713 million, and operating margin reached 16.4% versus 8.1% for 9 months 2014.

Finance costs grew by 23% yoy, where interest expenses for 9 months 2015 were 36% yoy higher and reached Rub 1,381 million with foreign exchange loss up by 7% yoy from Rub 305 million to Rub 327 million this year.

Interest expenses' growth is the result of an average debt burden[6] growth (Rub 16.9 billion for 9 months 2015 vs. Rub 13.7 billion for 9 months 2014) combined with an increase in average interest rate[7] (10.8% as of 01.10.2015 vs. 9.8% as of 01.10.2014 for all loans, including FX-denominated). HMS Group undertook major efforts to keep interest rates at a manageable level.

Profit for the period increased 8 times to Rub 2,107 million versus Rub 257 million last 9 months, due to improvement in operating profitability.

[4] SG&A expenses = Distribution and transportation expenses + General and administrative expenses
[5] Total operating expenses = Distribution and transportation expenses + General and administrative expenses + Other operating expenses (net)
[6] Total debt average 9 months 2015 is derived as (Total debt 31.12.2014 + Total debt 30.09.2015)/2, and total debt average 9 months 2014 is derived as (Total debt 31.12.2013 + Total debt 30.09.2014)/2.
[7] Herein, average interest rate as of 01.10.2015 is derived as (weighted average interest rate on 01.01.2015 + weighted average interest rate on 01.10.2015)/2, and average interest rate as of 01.10.2014 is derived as (weighted average interest rate on 01.01.2014 + weighted average interest rate on 01.10.2014)/2.

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 standard pumps; it also provides aftermarket maintenance and repair services and other support for its products.

Industrial pumps, Rub mn	9m 2015	9m 2014	Change yoy
Revenue	11,325	11,406	-1%
EBITDA	3,057	1,839	66%
EBITDA margin	27.0%	16.1%	

The industrial pumps business segment's revenue declined by minor 1% yoy to Rub 11,325 million from Rub 11,406 million. At the same time, EBITDA increased by 66% yoy to Rub 3,057 million, influenced by several factors: input of large-scale contracts in the oil & gas equipment business segment, import substitution, and costs optimization along with NEM's costs depreciation because of deprecation of the Ukrainian hryvnia against the Russian ruble. As a result, EBITDA margin grew up to 27.0%.

Also, it is important to note, that there is intersegment revenue of approx. Rub 1.5 billion between the pumps business segment and the oil & gas equipment business segment, generated by large contracts in the oil & gas equipment business segment and which is deducted from the pumps revenue. If the above segments are considered without intersegment revenue's elimination, then the pumps business segment's EBITDA margin would be lower, and closer to average margins' level.

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.

Oil & Gas equipment, Rub mn	9m 2015	9m 2014	Change yoy
Revenue	11,902	6,009	98%
EBITDA	2,511	963	161%
EBITDA margin	21.1%	16.0%	

The oil & gas equipment business segment continued to enjoy the fruits of signed contracts for delivery of integrated solutions both in terms of revenue and EBITDA. Revenue increased by 98% yoy to Rub 11,902 million, EBITDA was up 161% yoy and reached Rub 2,511 million and EBITDA margin increased to 21.1%.

In the 3rd quarter, there were budget reassessments of some contracts in the oil & gas equipment business segment, which resulted in the margin's upswing that is a one-off extraordinary item.

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 main products include standard compressors, customized compressors and compressor-based integrated solutions.

Compressors, Rub mn	9m 2015	9m 2014	Change yoy
Revenue	1,426	1,500	-5%
EBITDA	48	-252	n/a
EBITDA margin	3.4%	-16.8%	

Revenue was down by 5% yoy to Rub 1,426 million because most shipments and revenue recognition are planned in the 4th quarter of 2015. EBITDA turned positive Rub 48 million in comparison to negative Rub 252 million last year. The improving results of the compressors business segment are explained by the development of the contracts' base as well as participation in execution of a large contract in the oil & gas equipment business segment. EBITDA margin is still lower than the average, but it is positive 3.4% vs. negative 16.8% last year.

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 & gas upstream and midstream.

EPC, Rub mn	9m 2015	9m 2014	Change yoy
Revenue EPC	1,979	2,318	-15%
Project and design	*1,088*	*1,529*	*-29%*
Construction	*892*	*789*	*13%*
EBITDA EPC	170	311	-45%
Project and design	*70*	*141*	*-51%*
Construction	*100*	*170*	*-41%*
EBITDA margin EPC	8.6%	13.4%	
Project and design	*6.4%*	*9.2%*	
Construction	*11.3%*	*21.6%*	

The EPC business segment's results continued to weaken compared to the relevant period with revenue down to Rub 1,979 million (-15% yoy) and EBITDA decreasing by 45% yoy to Rub 170 million.

In general, the EPC segment is experiencing tougher competition and stiffer pricing, which influenced the segment's financial results. As a result, the EPC margin went down to 8.6% from 13.4% in the period of comparison.

FINANCIAL REVIEW

Cash flow performance

Cash flow performance, Rub mn	9m 2015	9m 2014	Change yoy
Net cash used in operating activities	-2,029	-1,259	61%
Net cash used in investing activities	-910	-727	25%
Free cash flow (FCF)[8]	-2,939	-1,987	48%
Net cash (used in)/from financing activities	-216	1,588	-114%

Working capital[9] grew by 63% yoy to Rub 12,231 million from Rub 7,492 million last year, mainly because of current execution of contracts in the oil & gas equipment business segment. Such essential necessity in working capital was reflected in 14% yoy net debt growth and operating cash outflow, which resulted in a negative free cash flow of Rub 3.0 billion.

Capital expenditures for 9 months 2015 grew by 6% yoy to Rub 942 million from Rub 891 million for 9 months 2014. HMS Group continues to develop manufacture competences for high-capacity oil refining and transport pumps and nuclear pumps in Livny, the Orel region, and the largest share of current capital expenditures was channeled to this investment project.

Debt and Liquidity position

Debt & Liquidity, Rub mn	9m 2015	9m 2014	Change yoy
Total debt	16,755	14,752	14%
Long-term debt	10,817	11,478	-6%
Short-term debt	5,938	3,274	81%
Cash & cash equivalents	1,355	1,190	14%
Net debt	15,400	13,562	14%
Net debt / EBITDA LTM	1.90	2.93	

Total debt of HMS Group increased by 14% yoy and reached Rub 16,755 million that was a result of growing capital needs. Net debt was up to Rub 15,400 million on a pro rata basis.

EBITDA's growth rates outperformed debt increase, so Net debt-to-EBITDA LTM ratio decreased to 1.90x, which is under the Net debt-to-EBITDA LTM bank maintenance covenant with a 4.50x threshold.

On November 1, 2015, the weighted average interest rate was 11.5% compared to 10.0% on November 1, 2014, for all loans, including FX-denominated, owing to new credit lines obtained at higher rates though lower than average prevailing interest rates.

[8] Free cash flow = Net cash used in operating activities + Net cash used in investing activities
[9] Working capital = Inventories + Trade and other receivables (excluding Short-term loans issued, Bank deposits and Promissory notes receivable) + Current income tax receivable - Trade and other payables - Short-term provisions for liabilities and charges - Current income tax payable - Other taxes payable

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

Within the first 11 months of 2015, HMS Group refinanced approx. Rub 5.9 billion. Also HMS Group signed Rub 4.2 billion of new loan agreements to refinance a part of its credit portfolio with maturity in 2016 and to finance its capital needs, including a Rub 1.2 billion credit line recently signed with UniCredit Bank.

General notes:

** Differences in calculations can occur due to the rounding-off rule*

WEBCAST TO DISCUSS 9 MONTHS 2015 IFRS FINANCIAL RESULTS

TUESDAY, 8 December 2015
12.00 PM (MOSCOW) / 9.00 AM (GMT) / 10.00 AM (CET) / 4.00 AM (EST)

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:

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Conference ID:	2312664
Title:	HMS Group 9 months 2015 IFRS results

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

For more information, please contact:
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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.