HMS Group announces management statement and financial highlights for 3 months 2016

Moscow, Russia – June 10, 2016 – 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 3 months ended March 31, 2016.

3 months 2016 HIGHLIGHTS:

- Backlog increased by 2% yoy to Rub 27.5 billion, while order intake was up more than twofold yoy at Rub 12.0 billion
- Revenue of Rub 9.1 billion grew by 19% yoy
- EBITDA[1] totalled Rub 1.2 billion, down 28% yoy, with EBITDA margin at 13.0%
- Operating profit decreased substantially to Rub 0.5 billion with operating margin at 5.4%
- Profit for the period totalled Rub 21 million
- Total debt grew by 3% yoy to Rub 16.4 billion from Rub 15.8 billion
- Net debt decreased by 11% yoy to Rub 13.0 billion resulting in Net debt-to-EBITDA ratio of 1.85x
- Return on capital employed LTM (ROCE)[2] increased to 16.3% vs. 13.8% for the comparative period

[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 the 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] ROCE is calculated as EBIT LTM divided by (average total debt + average equity), where EBIT is derived as (Gross profit – SG&A expenses – Other operating expenses (net)).

Kirill Molchanov, CFO and Co-founder of HMS Group, commented, that

"At a conference call in February we described that 2016 year is a difficult one for us. And the first quarter results are as low as budgeted for, though a little bit weaker than expected.

However, from a 2016 full year results standpoint, our guidance remains unchanged despite continuing uncertainty."

OPERATING REVIEW

BACKLOG & ORDER INTAKE

The Group built its backlog at Rub 27,461 million, up 2% yoy on the back of strong growth of the compressors business segments, which demonstrated positive dynamics in the reporting period.

Backlog, Rub mn	2016 3m	2015 3m	Change yoy
Industrial pumps	9,763	11,030	-11%
Oil & Gas equipment	7,007	11,057	-37%
Compressors	8,884	2,283	289%
EPC	1,808	2,478	-27%
Construction	494	1,400	-65%
Project and design	1,314	1,078	22%
Total	**27,461**	**26,848**	**2%**

In the pump business segment, the backlog declined by 11% yoy to Rub 9,763 million mainly because of a lack of new large orders and recognition of revenue of current large contracts.

In the oil & gas equipment business segment, the backlog declined by 37% yoy to Rub 7,007 million for the same reason as that for the pumps.

The compressors hiked almost three times yoy to Rub 8,884 million mainly due to new orders for large contracts.

The EPC segment's backlog showed negative dynamic with a decline of 27% yoy to Rub 1,808 million due to negative performance of the construction sub-segment.

Order intake[3] for 3 months 2016 was up more than twofold and equalled Rub 12.0 billion mainly due to new orders for large contracts in the oil & gas and compressors business segments maintained by steady demand for standard equipment.

[3] According to management accounts

Order intake, Rub mn	2016 3m	2015 3m	Change yoy
Industrial pumps	2,855	2,996	-5%
Oil & gas equipment	4,950	1,344	268%
Compressors	3,429	643	433%
EPC	723	342	112%
Construction	244	0	n/a
Project and design	479	341	40%
Total	**11,957**	**5,324**	**125%**

GROUP PERFORMANCE

HMS' revenue amounted to Rub 9,074 million, 19% yoy higher than Rub 7,599 million for 3 months last year. EBITDA, on the contrary, declined by 28% yoy and equalled Rub 1,181 million. As a result, EBITDA margin for 3 months 2016 decreased to 13.0% versus 21.6% in the previous year.

Rub mn	2016 3m	2015 3m	Change yoy
Revenue	9,074	7,599	19%
EBITDA	1,181	1,642	-28%
EBITDA margin	13.0%	21.6%	

The rise in revenue and decline in EBITDA, in the first place, resulted from a combination of the following factors:

- revenue growth from standard equipment alongside a slight decline in revenue from large contracts;
- a decrease in the EBITDA margin as a whole which is due to the growth of the share of standard equipment in total revenue, mainly applicable to the pumps business segment;
- a decline in large contracts' margin which is due to the change in the mix of contracts.

The Group's cost of sales grew by 33% yoy to Rub 6,983 million from Rub 5,242 million, driven mainly by growth of the share of materials and components. The main reason was a change in the mix of large contracts that will be explained in detail further in "Segment performance".

The share of labour costs in revenue decreased to 17% from 20% in the comparative period and remained flat in absolute figures.

Cost of sales, Rub mn	2016 3m	2015 3m	Change yoy	Share of 2016 3m revenue	Share of 2015 3m revenue
Cost of sales	**6,983**	**5,242**	**33%**	**77.0%**	**69.0%**
Materials and components	5,093	3,457	47%	56.1%	45.5%
Labour costs	1,539	1,539	0%	17.0%	20.2%
Depreciation and amortization	339	336	1%	3.7%	4.4%
Construction & design and engineering services of subcontractors	301	221	36%	3.3%	2.9%
Others	-290	-312	-7%	-3.2%	-4.1%

Although total operating expenses grew by 4% yoy to Rub 1,601 million from Rub 1,544 million, as a percentage of revenue they dropped to 18% for 3 months 2016 vs. 20% in the comparative period.

Distribution and transportation expenses were up by 36% yoy to Rub 413 million. As a percentage of revenue they accounted for 4.5 % vs. 4.0% for 3 months 2015, that is well within annual volatility.

General and administrative expenses grew by 13% to Rub 1,038 million for 3 months 2016 and declined as a percentage of revenue from 12% to 11%.

In absolute figures, SG&A expenses grew by 19% yoy, but as a share of revenue stayed the same at 16%.

Operating expenses, Rub mn	**2016 3m**	**2015 3m**	**Change yoy**	**Share of 2016 3m revenue**	**Share of 2015 3m revenue**
Distribution and transportation	413	304	36%	4.5%	4.0%
General and administrative	1,038	920	13%	11.4%	12.1%
Other operating expenses	150	319	-53%	1.6%	4.2%
Total operating expenses	**1,601**	**1,544**	**4%**	**17.6%**	**20.3%**
Finance costs	479	327	46%	5.3%	4.3%

Operating profit decreased by 40% to Rub 491 million from Rub 814 million, and operating margin declined to 5.4% from 10.7% for 3 months of the comparative period.

Finance costs grew by 46% yoy, where interest expenses for 3 months 2016 were 17% yoy higher and reached Rub 507 million; and foreign exchange gain related to borrowings decreased to Rub 28 million from Rub 106 million in the previous year.

The interest expenses' increase was a direct result of average interest rate[4] growth (11.8% as of 01.04.2016 vs. 10.5% as of 01.04.2015), though an average debt burden[5] decreased from Rub 16.4 billion for 3 months 2015 to Rub 16.1 billion for 3 months 2016.

Profit for the period decreased to Rub 21 million from Rub 330 million for the period of 3 months 2015.

SEGMENT PERFORMANCE

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, oil and gas equipment, compressors, oil and gas construction and other products and services. From 2015 onwards, HMS Group reports a total segment's revenue, which includes external revenue and intersegment revenue, for more consistent demonstration of the performance of each segment.

[4] Herein, average interest rate as of 01.04.2016 is derived as (weighted average interest rate on 01.01.2016 + weighted average interest rate on 01.04.2016)/2, and average interest rate as of 01.04.2015 is derived as (weighted average interest rate on 01.01.2015 + weighted average interest rate on 01.04.2015)/2.

[5] Total debt average on 01.04.2016 is derived as (Total debt on 01.01.2016 + Total debt on 01.04.2016)/2, and total debt average on 01.04.2015 is derived as (Total debt on 01.01.2015 + Total debt on 01.04.2015)/2.

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 solutions 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	2016 3m	2015 3m	Change yoy
Revenue	3,145	3,503	-10%
EBITDA	287	796	-64%
EBITDA margin	9.1%	22.7%	

The industrial pumps business segment's revenue declined by 10% yoy to Rub 3,145 million from Rub 3,503 million. EBITDA decreased by 64% yoy to Rub 287 million. A decline in the share of large contracts in revenue and EBITDA together with postponement of some deliveries of standard equipment to the next quarters affected the business segment's financials. As a result, EBITDA margin temporarily decreased to 9.1%.

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	2016 3m	2015 3m	Change yoy
Revenue	4,005	3,499	14%
EBITDA	825	750	10%
EBITDA margin	20.6%	21.4%	

The oil & gas equipment business segment's revenue grew by 14% yoy to Rub 4,005 million from Rub 3,499 million, and EBITDA increased by 10% yoy to Rub 825 million due to more contracts for standard equipment executed with higher-than-average margin.
As a result, EBITDA margin was stable about 21%.

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	2016 3m	2015 3m	Change yoy
Revenue	1,451	644	125%
EBITDA	60	35	74%
EBITDA margin	4.2%	5.4%	

Revenue increased by 125% yoy to Rub 1,451 million and EBITDA reached Rub 60 million in comparison to Rub 35 million EBITDA in the previous year. Although the development of KKM's contract base and conclusion of large contracts improved the financial results of the compressor business segment, the largest part of the revenue was generated by one large low-margin contract thus squeezing the whole EBITDA margin. So, it declined to 4.2% from 5.4% in the comparative period.

Also, in general, margins of recently signed large contracts in the compressor business segment are still lower than those in the pumps or oil & gas equipment business segments due to a lower market share of HMS Group in the compressor market and not so strong and long-standing reputation.

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	2016 3m	2015 3m	Change yoy
Revenue EPC	627	700	-10%
Project and design	287	316	-9%
Construction	340	384	-11%
EBITDA EPC	48	94	-49%
Project and design	-16	37	-144%
Construction	64	57	12%
EBITDA margin EPC	7.6%	13.4%	
Project and design	-5.6%	11.6%	
Construction	18.7%	14.8%	

The EPC business segment delivered relatively weaker results compared to 3 months 2015 with revenue down to Rub 627 million and EBITDA decreased by 49% yoy to Rub 48 million, due to the mixed results of the EPC sub-segments.

In general, the EPC segment is facing tougher competition and pricing pressure, which influenced the segment's financial performance. As a result, the EPC margin went down to 7.6% from 13.4% in the period of comparison.

FINANCIAL REVIEW

Cash flow performance

Cash flow performance, Rub mn	2016 3m	2015 3m	Change yoy
Net cash from /(used in) operating activities	260	-2,061	-113%
Net cash used in investing activities	-459	-298	54%
Free cash flow (FCF)	**-199**	**-2,358**	**-92%**
Net cash from / (used in) financing activities	159	-860	-119%
Cash & cash equivalents	3,405	1,302	161%

Operating cash flow grew to Rub 260 million versus operating outflow of Rub 2,061 million in the comparative period due to an improvement in working capital.

Capital expenditures for 3 months 2016 grew by 38% yoy and totalled Rub 415 million versus Rub 301 million for 3 months 2015. The main reason for such an increase is the current development of manufacture competences for high capacity oil transport pumps and nuclear pumps in Russia, which contributed about Rub 186 million to the whole Group's capex.

As a result of the increased investment activities, free cash flow[6] was negative Rub 199 million, though higher than Rub 2.4 billion free cash outflow for 3 months 2015.

Debt and Liquidity position

Debt & Liquidity, Rub mn	2016 3m	2015 3m	Change yoy
Total debt	16,356	15,817	3%
Long-term debt	13,670	9,207	48%
Short-term debt	2,687	6,611	-59%
Cash & cash equivalents	3,405	1,302	161%
Net debt	12,951	14,515	-11%
Net debt / EBITDA LTM	1.85	2.37	

As of 01 April 2016, HMS Group increased its total debt by 3% yoy to Rub 16,356 million from Rub 15,817 million as of 01 April 2015. Net debt, on the contrary, decreased by 11% yoy to Rub 12,951 million.

As a result, the Net debt-to-LTM EBITDA ratio amounted to 1.85x.

On April 1, 2016, the weighted average interest rate was 11.8% vs. 10.5% on April 1, 2015, for all loans, including FX-denominated, owing to new credit lines obtained at higher rates, though lower than

[6] Free cash flow (FCF) = Net cash (used in) / from operating activities (operating cash flow) + Net cash used in investing activities (investing cash flow), represents the cash that a company is able to generate after laying out the money required to maintain or expand its assets base.

average prevailing interest rates. The weighted average interest rate for Rub-denominated loans only increased to 12.7% from 11.5% as of April 1, 2015.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

Financial management

On February 2, 2016, HMS Group completed an early full redemption of its Ruble 3bn bonds series 03 with a 10.10% coupon rate with maturity in February 2018. Currently, HMS Group doesn't have any Ruble corporate bonds outstanding.

At the beginning of this year, HMS Group increased its uncommitted revolving credit line with VTB Bank from Rub 4.5 billion to Rub 10.0 billion.

In May 2016, HMS Group signed an agreement with UniCredit Bank to open a long-term loan facility in the amount of Rub 1.2 billion. The 3-year non-revolving credit line with maturity in May 2019 will be utilized for general corporate needs.

Depositary program

In February 2016, the ratio of HMS' depositary receipts program was changed from 1:1 to 1:5. According to the "new" ratio, 1 depositary receipt became equal to 5 ordinary shares, and on February 8, 2016, HMS Group's shareholders received 1 "new" GDR for every 5 "old" GDRs. Only whole depositary receipts were distributed and, in effecting this, "old" receipts were rounded down, fractional receipts were sold on the market and the cash proceeds were distributed to the depositary receipts' holders. The issued number of ordinary shares and their nominal value stayed unchanged.

Also, under a new deposit agreement with BNY Mellon, the annual depositary fee became equal to US$ 0.01 per "new" GDR instead of US$ 0.03 per "old" GDR, implying a 15-fold decrease in such fees.

After the reverse split, the issued number of GDRs equals 9,600,800, where 8,728,000 depositary receipts are outstanding and 872,800 - "green-shoe" ones.

Large contracts

In February 2016, HMS signed a Rub 2.8 billion contract to produce a boosting compressor station, based on 3 centrifugal-type compressor units with gas-turbine engines intended for compression of low-pressure associated gas. The station will be manufactured by Kazancompressormash and installed at an oil & gas condensate field in West Siberia, within one year.

In March 2016, HMS Neftemash signed a number of contracts for delivery and installation of technologically integrated solutions for two Siberian gas fields, worth Rub 3.1 billion. These solutions will be intended for pumping natural gas liquids and pumping oil, wash-down water and rust preventive chemical. These contracts are a follow-up to another project, recently successfully completed.

Incentive program
On March 23, 2016, the Board of Directors decided to establish a long-term incentive program for the key executives to align the objectives of the shareholders and the executives, to retain and motivate the key executives in the form of a stock ownership program with GDRs' vesting linked to HMS' performance. The GDRs for this program will come from GDRs owned and bought by the Group, so this program will not dilute ownership of existing shareholders. As a basic scenario, the program's fund would be equal to 5% of HMS' share capital in the form of GDRs, subject to 100% of the KPIs within three years (Profit for the year attributable to the shareholders of the Company and EBITDA).

DIVIDENDS AND HMS GDRS

During the period from April 28, 2016 up to and including May 10, 2016, HMS Group repurchased 228,453 of its global depositary receipts ("GDRs"). The share repurchases are part of the Company's buy-back program. In total, HMS Group purchased 781,785 GDRs (3.34 % of its issued share capital).

On 28 April 2016, the Board of Directors recommended:

- The payment by the Company of a final dividend in respect of the financial year ended December 31, 2015, of 5.12 RUB per ordinary share, amounting to the maximum total dividend of 599,876,746 RUB (the "Dividends").
- To proceed with the buyback program (the "Buyback") in respect of the Company's Global Depositary Receipts ("GDRs"), each representing five ordinary shares of the Company, for execution during the period of one year commencing on the later of June 19, 2016 and the date of approval by the Company's shareholders at the AGM. The total amount of GDRs subject to the Buyback (taking into account any GDRs already acquired by the Company) shall not exceed 6% of the subscribed capital of the Company.

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WEBCAST TO DISCUSS 3 MONTHS 2016 IFRS FINANCIAL RESULTS

FRIDAY, 10 June 2015
2.00 PM (MOSCOW) / 12.00 PM (London) / 1.00 PM (CET) / 7.00 AM (NY)

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:	7 495 213 0977
UK Local:	44 (0)20 3427 1904
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Conference ID:	2568487
Title:	HMS Group 3 months 2016 IFRS results

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

http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=3737

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.