HMS Group IR Release
Moscow
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HMS Group announces management statement and financial highlights for 6 months 2016

Moscow, Russia – September 28, 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 6 months ended June 30, 2016.

Financial highlights 6 months 2016:

- Revenue of Rub 20.4 billion grew by 23% yoy
- EBITDA[1] amounted to Rub 3.0 billion, down 12% yoy, with EBITDA margin at 14.5%
- Operating profit decreased to Rub 1.8 billion with operating margin at 8.7%
- Profit for the period totalled Rub 696 million, down by 37% yoy

- Total debt stood at Rub 16.1 billion
- Net debt decreased by 13% yoy to Rub 12.8 billion
- Net debt-to-EBITDA LTM ratio amounted to 1.81x
- Return on capital employed LTM (ROCE)[2] decreased to 16.1%

Operational highlights 6 months 2016:

- Backlog increased by 6% yoy to Rub 26.2 billion
- Order intake increased by 68% yoy and amounted to Rub 22.4 billion

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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 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 presented the year 2016 as a difficult one for us. The first quarter results were as low as budgeted for, though a little bit weaker than expected.

Given the second quarter results alongside execution of current contracts and inflow of new orders, we upgrade our guidance on revenue to Rub 43-45 billion and EBITDA to Rub 5.7-6 billion.”

OPERATING REVIEW

BACKLOG & ORDER INTAKE

The Group built its backlog at Rub 26,197 million, up 6% yoy based on growth of the compressors business segment.

Backlog, Rub mn	2016 6m	2015 6m	Change yoy
Industrial pumps	8,406	10,643	-21%
Oil & Gas equipment	9,729	8,846	10%
Compressors	6,291	3,039	107%
EPC	1,771	2,283	-22%
Construction	307	1,017	-70%
Project and design	1,463	1,267	16%
Total	**26,197**	**24,812**	**6%**

In the pump business segment, the backlog declined by 21% yoy to Rub 8,406 million because of revenue recognition of some relatively large contracts, including a nuclear one for Tianwan NPP (China).

In the oil & gas equipment business segment, the backlog increased by 10% yoy to Rub 9,729 million due to a growing number of signed contracts for ordinary production.

The compressors’ backlog doubled and amounted to Rub 6,291 million thanks to two large contracts signed in 3Q 2015 and 1Q 2016.

The EPC backlog’s dynamics is still negative with a decline of 22% yoy due to poor performance of the construction sub-segment.

Order intake[3] for 6 months 2016 grew by 68% yoy and equalled Rub 22.4 billion. Number and value of contracts for oil & gas equipment and compressors demonstrated significant growth. This year, HMS Group signed two large contracts worth Rub 4.8 billion and two medium-sized contracts worth Rub 1.7 billion in the oil & gas business segment, and one large Rub 2.8 billion contract in the compressor segment. Inflow of ordinary business orders kept up with large integrated projects.

[3] According to management accounts

Order intake, Rub mn	2016 6m	2015 6m	Change yoy
Industrial pumps	5,990	6,993	-14%
Oil & gas equipment	11,175	3,384	230%
Compressors	3,973	2,131	86%
EPC	1,268	822	54%
Construction	246	-1	n/a
Project and design	1,023	824	24%
Total	**22,406**	**13,330**	**68%**

GROUP PERFORMANCE

Group revenue for the first-half year grew by 23% yoy and reached Rub 20,363 million. In terms of segments, it was stimulated by superior growth of the compressors business segment. Whilst in terms of revenue mix, Group revenue was assisted by a growing share of revenue from ordinary business for the six months 2016 compared to the six months 2015, which compensated for a decreased share of large contracts.

Rub mn	2016 6m	2015 6m	Change yoy
Revenue	20,363	16,589	23%
EBITDA	2,956	3,364	-12%
EBITDA margin	14.5%	20.3%	

EBITDA, on the contrary, declined by 12% yoy to Rub 2,956 million.

The decrease in EBITDA was a direct consequence of the decline in the share of large contracts. In the pumps business segment, a major part of EBITDA was generated by ordinary orders only. In the oil & gas business segment, despite decreasing volume of integrated contracts, they were successfully substituted by highly profitable orders which were smaller by size but had a high level of innovation and hence added value. Also, in previous 6 months there was a high basis of comparison for the oil & gas equipment segment. Though the compressors segment increased its share in the large contracts portfolio, in general, margins of these contracts are still lower than those in the pumps and oil & gas equipment segments.

Therefore, EBITDA margin decreased to 14.5%.

Cost of sales grew faster than revenue and increased to Rub 15,387 million from Rub 11,554 million (+33% yoy vs. +23% yoy respectively). This surpassing increase was driven by materials and components (+36% yoy). The main reason was a change in the prevailing type of contracts, which became more material-intensive. The second largest item, labour costs, increased by 2% yoy in absolute figures, but its share in revenue decreased to 15% from 18%.

Cost of sales, Rub mn	2016 6m	2015 6m	Change yoy	Share of 2016 6m revenue	Share of 2015 6m revenue
Cost of sales	**15,387**	**11,554**	**33%**	**75.6%**	**69.7%**
Materials and components	10,690	7,847	36%	52.5%	47.3%
Labour costs	2,963	2,914	2%	14.6%	17.6%
Depreciation and amortization	658	642	2%	3.2%	3.9%
Construction & design and engineering services of subcontractors	708	508	39%	3.5%	3.1%
Others	367	-357	-203%	1.8%	-2.2%

Total operating expenses grew by 10% yoy to Rub 3,206 million from Rub 2,918 million, whilst as a percentage of revenue they dropped to 16% for 6 months 2016 from 18% in the comparative period.

Distribution and transportation expenses increased by 42% yoy and amounted to Rub 883 million. As a percentage of revenue they also grew, to 4.3% from 3.8% for 6 months 2015. An increase in labour costs and transportation expenses made a major contribution to this growth. Transportation expenses grew because of several projects' procurement, primarily to China.

General and administrative expenses grew by 5% to Rub 2,098 million because of labour costs' increase by 12% yoy. In the meantime, general and administrative expenses as a percentage of revenue decreased to 10% from 12% in the comparative period.

While in absolute figures SG&A expenses[4] grew by 14% yoy, they decreased as a share of revenue to 15% from 16%.

Operating expenses, Rub mn	2016 6m	2015 6m	Change yoy	Share of 2016 6m revenue	Share of 2015 6m revenue
Distribution and transportation	883	623	42%	4.3%	3.8%
General and administrative	2,098	1,990	5%	10.3%	12.0%
Other operating expenses	224	305	-26%	1.1%	1.8%
Total operating expenses	**3,206**	**2,918**	**10%**	**15.7%**	**17.6%**
Finance costs	887	710	25%	4.4%	4.3%

Operating profit declined by 16% to Rub 1,771 million from Rub 2,117 million due to outrunning growth of cost of sales. Operating margin stood at 8.7% vs. 12.8% for 6 months of the comparative period.

Finance costs grew by 25% yoy because of interest expenses, which increased by 11% yoy and almost reached Rub 1.0 billion. Average interest rate[5] grew to 11.9% as of 01.07.2016 from 10.6% as of 01.07.2015, where Rub-denominated only reached 12.7% from 11.5% as of 01.07.2015. The reasons for this growth were refinancing of a Euro-denominated loan with a Rub-denominated one combined with the replacement of "old" before-the-crisis loans at interest rates around 10% with more expensive ones.

[4] SG&A expenses = Selling, General and Administrative Expenses = Distribution and transportation + General and administrative

[5] Herein, average interest rate as of 01.07.2016 is derived as (weighted average interest rate on 01.01.2016 + weighted average interest rate on 01.07.2016)/2, and average interest rate as of 01.07.2015 is derived as (weighted average interest rate on 01.01.2015 + weighted average interest rate on 01.07.2015)/2.

Profit for the period decreased more than one-third to Rub 696 million from Rub 1,101 million for the period of 6 months 2015, due to lower operating profit and the growth of finance costs.

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.

Industrial pumps Business Segment[i]

The industrial pumps business segment's revenue declined by 5% yoy to Rub 7,718 million. EBITDA decreased by 53% yoy to Rub 909 million. As a result, EBITDA margin decreased to 11.8%.

Several factors affected the business segment's financials:
- a large decline in the share of large contracts in revenue and EBITDA, replaced by ordinary orders with more profit;
- a decline in demand for oilfield equipment repair services which NRS[6] provides and the facility's poor performance itself;
- postponement of some deliveries to the second half of 2016.

However, HMS expects substantially better results in terms of both revenue and EBITDA in the second half of 2016.

Industrial pumps, Rub mn	2016 6m	2015 6m	Change yoy
Revenue	7,718	8,149	-5%
EBITDA	909	1,927	-53%
EBITDA margin	11.8%	23.6%	

Oil & Gas equipment Business Segment[ii]

The oil & gas equipment business segment continued to deliver very strong results with a slight drop within normal volatility. Revenue decreased by 2% yoy to Rub 7,119 million and EBITDA was down by 6% yoy to Rub 1,108 million. There were fewer large contracts in the oil & gas business segment executed, but ordinary products managed to substitute them. EBITDA margin stood at 15.6% because most contracts for ordinary products were executed with higher-than-average margin due to a high level of innovation and added value.

Oil & Gas equipment, Rub mn	2016 6m	2015 6m	Change yoy
Revenue	7,119	7,274	-2%
EBITDA	1,108	1,175	-6%
EBITDA margin	15.6%	16.1%	

[6] Nizhnevartovskremservice (NRS) is an oil service company with activities as pumping, drilling and other oilfield equipment repair, maintenance and upgrade in the Khantymansiysk autonomous district.

In the second half of 2016, the company forecasts comparable financial results.

Compressors Business Segment[iii]

Revenue tripled to Rub 4,661 million and EBITDA showed strong growth, achieving Rub 441 million in comparison to Rub 47 million EBITDA in the previous year. EBITDA margin increased to 9.5% vs. 3.4% in the compared period.

Though the compressors segment's EBITDA margin grew, it is still lower than those in the pumps or oil & gas equipment business segments.

Compressors, Rub mn	2016 6m	2015 6m	Change yoy
Revenue	4,661	1,391	235%
EBITDA	441	47	845%
EBITDA margin	9.5%	3.4%	

The improving results of the compressors business segment illustrated a successful integration and development of Kazankompressormash. HMS Group expects comparable business results in the second half of 2016 and believes that there is a potential for further EBITDA growth in 2017.

Engineering, Procurement and Construction (EPC) Business Segment[iv]

The EPC business segment continued to show weak results with revenue down to Rub 1,200 million and EBITDA of Rub 52 million (-61% yoy) due to poor performance of both the project & design and the construction sub-segments because of further market stagnation and absence of an import-substitution factor, which positively influences other segments. EBITDA margin went down to 4.3% from 9.8% in the period of comparison.

EPC, Rub mn	2016 6m	2015 6m	Change yoy
Revenue EPC	1,200	1,356	-12%
EBITDA EPC	52	133	-61%
EBITDA margin EPC	4.3%	9.8%	

Unfortunately, there is not any upturn expected in the second half of 2016.

FINANCIAL REVIEW

Cash flow performance, Debt and Liquidity position

Net operating cash inflow of Rub 1,431 million was achieved versus operating outflow of Rub 1,909 million in the comparative period due to significant improvement in working capital.

Despite increased investment activities, free cash flow[7] turned positive Rub 547 million vs. negative almost Rub 2.5 billion outflow in the previous first-half year.

Cash flow performance, Rub mn	2016 6m	2015 6m	Change yoy
Net cash from /(used in) operating activities	1,431	-1,909	-175%
Net cash used in investing activities	-883	-564	57%
Free cash flow (FCF)	**547**	**-2,472**	**-122%**
Net cash used in financing activities	-622	-514	21%
Cash & cash equivalents	3,361	1,440	133%

HMS Group liquidity stood at Rub 3.4 billion of cash & cash equivalents as of June 30, 2016, confirming that the company has solid financial resources.

Rub mn	2016 6m	2015 6m	Change yoy
Working capital	8,537	10,143	-16%
Working capital / Revenue LTM	21%	28%	
Capital expenditures	766	558	37%

Working capital decreased by 16% yoy to Rub 8,537 million due to continuing execution of large contracts in the oil & gas business segment and procurement of produced equipment to customers' sites. At the 2016-end, the company expects working capital to grow because of new large contracts signed.

HMS Group continues to make targeted investments to secure its future competitiveness. The company invested Rub 766 million in products and equipment in the first half of 2016. Capital expenditures were 37% yoy higher this year not only because of Rub 247 million invested in the Localization project[8]. HMS Group keeps developing its competences in pumps, oil & gas equipment and compressors in parallel with modernization of production facilities. The capex ratio stood at 1.0x compared to 0.7x last year.

Debt & Liquidity, Rub mn	2016 6m	2015 6m	Change yoy
Total debt	16,113	16,146	0%
Long-term debt	*12,699*	*10,535*	*21%*
Short-term debt	*3,414*	*5,611*	*-39%*
Cash & cash equivalents	3,361	1,440	133%
Net debt	12,752	14,705	-13%
Net debt / EBITDA LTM	1.81	2.11	

Total debt remained almost flat and stood at Rub 16,113 million. Net debt decreased by 13% yoy to Rub 12,752 million. As a result, the Net debt-to-EBITDA LTM ratio dropped to 1.81x.

[7] 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.
[8] Development of manufacture competences for high capacity oil transport pumps and nuclear pumps in Russia, Orlov region (Livny) at HMS Livgidromash

On July 1, 2016, the weighted average interest rate was 12.5% vs. 11.1% on July 1, 2015, for all loans, including FX-denominated. The weighted average interest rate for Rub-denominated loans only increased to 12.9% from 12.0% as of July 1, 2015.

SIGNIFICANT EVENTS & FINANCIAL MANAGEMENT AFTER THE REPORTING DATE

Financial management

In July 2016, HMS Group made a full early redemption of its Euro credit facility using own funds as well as credit lines denominated in rubles. As a result, Russian production facilities of HMS Group don't have any credit facilities denominated in a foreign currency thus avoiding any currency risks.

HMS GDRS

During the period from July 1, 2016 up to and including September 28, 2016, HMS Group repurchased 55,594 of its global depositary receipts ("GDRs"). The share repurchases are part of the Company's buy-back program. In total, HMS Group purchased 847,379 GDRs (3.62 % of its issued share capital).

Dividend policy

The Board of Directors of HMS Group at its meeting held on September 23, 2016, approved an updated dividend policy. According to it, as a general rule, the company targets to pay out dividends in the region of 50% of the "Profit attributable to Shareholders of the Company" subject to capital constraints such as debt and liquidity position and forecast, and plans to pay out dividends basically twice a year.

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WEBCAST TO DISCUSS 6 MONTHS 2016 IFRS FINANCIAL RESULTS

WEDNESDAY, 28 September 2016
5.00 PM (MOSCOW) / 3.00 PM (London) / 4.00 PM (CET) / 10.00 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 1767
UK Local:	44 (0)20 043 2002
UK Toll Free:	0800 358 6377
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Conference ID:	1211581
Title:	HMS Group 6 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=4003

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

For more information, please contact:

Investor Relations
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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.

[i] 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 ordinary specifications; it also provides aftermarket maintenance and repair services and other support for its products.

[ii] 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.

[iii] 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 ordinary specifications, and compressor-based integrated solutions.

[iv] 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.