

HMS Group announces management statement and financial highlights for FY 2017

Moscow, Russia – April 24, 2018 – HMS Group Plc (the “Group”) (LSE: HMSG), the leading pump, oil & gas equipment and compressor manufacturer and provider of flow control solutions and related services in Russia and the CIS, today announces its financial results for twelve months ended December 31, 2017.

Financial highlights FY 2017:

- Revenue: Rub 44.4 bn (+7% yoy)
- EBITDA¹: Rub 6.8 bn (+7% yoy), EBITDA margin 15.4%
- Operating profit: Rub 4.6 bn (+26% yoy), operating margin up to 10.3%
- Profit for the period: Rub 2.1 bn (+73% yoy), net income margin 4.7%

- Total debt: Rub 16.0 bn (-2% yoy)
- Net debt: Rub 11.4 bn (-14% yoy)
- Net debt-to-EBITDA LTM ratio: 1.7x

Operational highlights FY 2017:

- Backlog: Rub 44.2 bn (+84% yoy)
- Order intake: Rub 65.5 bn (+61% yoy)

¹ EBITDA is defined as operating profit/loss from continuing operations adjusted for other operating income/expenses, depreciation and amortisation, amortisation of government grants, 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.

OPERATING REVIEW

BACKLOG & ORDER INTAKE

Backlog grew to Rub 44.2 billion (+84% yoy). All the four business segments demonstrated growth, but the main driver was the oil & gas equipment and projects business segment (OGEP).

The significant growth in all segments was fully due to a number of large integrated contracts signed and executed in the reporting period.

Backlog, Rub mn	2017 FY	2016 FY	Change yoy
Industrial pumps	14,467	10,317	40%
Oil & Gas equipment and projects	20,180	9,524	112%
Compressors	5,186	3,476	49%
Construction	4,323	719	502%
Total	44,155	24,035	84%

Order intake² also hit a record high and reached Rub 65.5 billion (+61% yoy). All four business segments of HMS contributed to this growth, especially the oil and gas equipment and projects segment. The main driver was an outstanding growth of the portfolio of large contracts. However, recurring business also demonstrated growth, of 3% yoy.

Order intake, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Industrial pumps	20,983	15,997	31%	8,762	5,127	71%
Oil & gas equipment	32,496	18,684	74%	4,025	2,752	46%
Compressors	7,202	5,172	39%	1,268	587	116%
Construction	4,818	771	525%	462	525	-12%
Total	65,499	40,624	61%	14,516	8,991	61%

Note to HMS' Backlog and Order intake:

The contract to deliver oil & gas equipment for reconstruction of a gas processing plant, signed in 2Q 2017 (Rub 23.3. bn) is still subject to uncertainty. The company hasn't received any advance payments, and even hasn't started any work. HMS isn't certain that the execution of this project will start in the nearest future.

The company doesn't include the contract its Backlog and Order intake.

² According to management accounts

GROUP PERFORMANCE

Revenue increased by 7% yoy and amounted to Rub 44.4 billion. The OGEP and the industrial pumps business segments contributed to this growth the most.

EBITDA was up by 7% yoy to Rub 6.8 billion. Robust results of the compressors segment were the major driver of the company's EBITDA growth.

Rub bn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	44,422	41,582	7%	13,011	11,266	15%
EBITDA	6,839	6,369	7%	1,852	1,681	10%
EBITDA margin	15.4%	15.3%		14.2%	14.9%	

In terms of contracts' type, revenue from recurring business grew by 7% yoy, wherein machine-building product sales increased by 8% yoy. Large projects' revenue advanced 5% yoy. EBITDA from recurring business grew 2% yoy and large contracts jumped by 15% yoy. All that led to an EBITDA margin increase to 15.4% from 15.3% last year.

Cost of sales, Rub mn	2017 FY	2016 FY	Change yoy	Share of 2017 FY revenue	Share of 2016 FY revenue
Cost of sales	32,536	30,799	6%	73.2%	74.1%
Materials and components	22,036	20,172	9%	49.6%	48.5%
Labour costs	5,116	4,627	11%	11.5%	11.1%
Construction and design and engineering services of subcontractors	1,365	2,173	-37%	3.1%	5.2%
Depreciation and amortization	1,307	1,340	-2%	2.9%	3.2%
Others	2,711	2,487	9%	6.1%	6.0%

Cost of sales grew by 6% yoy to Rub 32.5 billion almost completely due to an increase in materials and components (+9% yoy) and labour costs (+11% yoy). However, the cost of sales as a percentage of revenue decreased to 73%. The lagging growth of costs led to an expansion in gross margin (2017: 26.8% vs 25.9% in 2016).

Rub mn	2017 FY	2016 FY	Change yoy	Share of 2017 FY revenue	Share of 2016 FY revenue
Distribution and transportation	1,785	1,700	5%	4.0%	4.1%
General and administrative	4,999	4,523	11%	11.3%	10.9%
SG&A expenses	6,784	6,223	9%	15.3%	15.0%
Other operating expenses	547	548	0%	1.2%	1.3%
Operating expenses ex. Cost of sales	7,331	6,771	8%	16.5%	16.3%
Finance costs	1,775	1,905	-7%	4.0%	4.6%

SG&A expenses³ increased by 9% yoy, and as a share of revenue grew to 15.3% from 15.0%.

³SG&A expenses = Selling, General and Administrative Expenses = Distribution and transportation + General and administrative

Operating expenses excl. cost of sales grew by 8% yoy. As a share of revenue they also increased, to 16.5%. The main reason was an increase in labour costs due to the budgeted growth in wages.

Distribution and transportation expenses grew by 5% yoy to Rub 1.8 billion. The main reason was a growth of labour costs and transportation expenses. As a share of revenue, distribution and transportation expenses stayed almost unchanged at 4%.

General and administrative expenses grew by 11% yoy to Rub 5.0 billion due to labour costs' increase (+9% yoy). As a share of revenue, general and administrative expenses grew to 11.3% from 10.9%.

Operating profit grew by 26% yoy to Rub 4.6 billion from Rub 3.6 billion. Operating margin increased to 10.3% from 8.7%.

Finance costs, Rub mn	2017 FY	2016 FY	Change yoy
Finance costs	1,775	1,905	-7%
<i>Interest expenses</i>	<i>1,725</i>	<i>2,009</i>	<i>-14%</i>
<i>Fees for early repayment of loans</i>	<i>48</i>	<i>-</i>	<i>Na</i>
<i>Finance lease expenses</i>	<i>2</i>	<i>1</i>	<i>85%</i>
<i>Foreign exchange loss/(gain), net</i>	<i>1</i>	<i>(105)</i>	<i>-100%</i>
Interest rate, average	9.8%	12.2%	
Interest rate Rub, average	9.9%	12.4%	

Finance costs decreased by 7% yoy. The main factor was lower interest expenses (-14% yoy) due to lower interest rates as a result of debt portfolio refinancing. Within a one-year period, average rates decreased from 12.2% p.a. to 9.8% p.a.

Profit for the year increased 73% yoy to Rub 2.1 billion from Rub 1.2 billion.

BUSINESS SEGMENTS PERFORMANCE

Industrial pumpsⁱ

The industrial pumps business segment's revenue increased by 5% yoy to Rub 17.5 billion from Rub 16.7 billion. EBITDA grew by 13% yoy to Rub 3.1 billion. EBITDA margin was up to 18.0% which is within the range of the pumps' "upper" profitability level.

Industrial pumps, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	2017 FY
Revenue	17,488	16,720	5%	5,141	4,942	4%
EBITDA	3,148	2,791	13%	1,034	1,073	-4%
EBITDA margin	18.0%	16.7%		20.1%	21.7%	

Oil & Gas equipment and projects (OGEP)ⁱⁱ

The OGEP business segment's revenue advanced 28% yoy to Rub 21.5 billion from Rub 16.8 billion based on an impressive growth of both recurring business and large projects. However, the segment's EBITDA was down 12% yoy to Rub 2.6 billion due to lower EBITDA, generated also by recurring business and large contracts, as well.

EBITDA margin declined to 12.0% on the back of a fall in yields of products sold in the reporting period.

OGEP, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	21,536	16,767	28%	6,499	4,790	36%
EBITDA	2,592	2,961	-12%	1,132	975	16%
EBITDA margin	12.0%	17.7%		17.4%	20.3%	

Compressorsⁱⁱⁱ

Revenue demonstrated the growth of 5% yoy to Rub 9.1 billion. EBITDA almost doubled from Rub 619 million to Rub 1.1 billion in FY 2017. This impressive growth was due to an enhanced tender & large project management and a number of middle-size projects executed in 2H 2017. EBITDA margin increased to 12.5%.

Compressors, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	9,130	8,700	5%	2,481	2,027	22%
EBITDA	1,143	619	85%	47	(37)	na
EBITDA margin	12.5%	7.1%		1.9%	-1.8%	

Construction^{iv}

Construction increased its revenue by 53% yoy and reached Rub 1.0 billion from Rub 684 million in the comparative period. EBITDA continued to demonstrate weak results facing challenges in the oil & gas facility construction market.

Construction, Rub mn	2017 FY	2016 FY	Change yoy	2017 4Q	2016 4Q	Change qoq
Revenue	1,045	684	53%	597	127	371%
EBITDA	(75)	(40)	na	44	9	400%
EBITDA margin	-7.2%	-5.8%		7.4%	7.0%	

FINANCIAL REVIEW

CASH FLOW PERFORMANCE

Working capital was down by 21% yoy to Rub 7.8 billion from Rub 10.0 billion in 2016. The sharp decrease in working capital was because of a number of payments received from customers and delivery of equipment produced under large contracts. As a share of revenue, working capital dropped to 18% from 24% at 2016-end.

In December 2017, the company obtained a few payments from customers that were budgeted for to be received at the beginning of 2018. As a result of the earlier payments in 2017, working capital in 1Q 2018 is expected to grow.

Working capital & Capex, Rub mn	2017 FY	2016 FY	Change yoy
Working capital	7,820	9,962	-21%
Working capital / Revenue LTM	18%	24%	
Capital expenditures	2,159	1,701	27%

Capital expenditures grew by 27% yoy to Rub 2.2 billion. The company completed the second stage of the Localization project in 4Q 2017. Now the shop is in full operation. Total investment in the project was Rub 710 million in 2017. Capex, excluding the localization, was up by 40% yoy and reached Rub 1.5 billion.

HMS Group generated positive **operating cash flow** of Rub 5.2 billion that almost tripled.

Increased operating cash flow resulted in positive **free cash flow**⁴ of Rub 3.1 billion.

Cash flow performance, Rub mn	2017 FY	2016 FY	Change yoy
Net cash from operating activities	5,233	1,808	189%
Net cash used in investing activities	(2,135)	(1,788)	19%
Free cash flow (FCF)	3,098	20	na
Net cash used in financing activities	(1,461)	(394)	270%
Cash & cash equivalents	4,621	2,990	55%

DEBT POSITION

Total debt decreased by 2% yoy to Rub 16.0 billion from Rub 16.3 billion.

Net debt was down by 14% yoy to Rub 11.4 billion. The **Net debt-to-EBITDA LTM ratio** was down to 1.7x due to lower Net debt combined with higher EBITDA in the reporting period.

⁴ Free cash flow (FCF) = Net cash 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.

Leverage, Rub mn	2017 FY	2016 FY	Change yoy
Total debt	16,042	16,336	-2%
<i>Long-term debt</i>	<i>13,065</i>	<i>12,770</i>	<i>2%</i>
<i>Short-term debt</i>	<i>2,977</i>	<i>3,566</i>	<i>-17%</i>
Net debt	11,422	13,347	-14%
Net debt / EBITDA LTM	1.7x	2.1x	

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT

As of April 1, 2018, average interest rate decreased to 8.9% compared to 12.2% at the beginning of 2017.

CONTRACTS

In January 2018, the company announced signing of a contract worth Rub 3.1 billion for delivery and installation of oil & gas equipment for a pre-transport gas treatment unit. The project is to be completed by the end of 2018.

In April 2018, HMS signed three export contracts worth c. US\$ 13.5 million to deliver pumping equipment to a power plant, located in South Asia. Also, the company announced a Rub 1.9 billion contract to deliver compressor equipment to a gas production and treatment facility in Russia.

DIVIDENDS AND HMS GDRS

During the period from December 11, 2017 up to and including April 24, 2018, HMS Group purchased 43,000 of its global depository receipts ("GDRs"). As of today, HMS Group has purchased 1,076,887 GDRs (4.60 percent of its issued share capital).

On December 7, 2017, the Board of Directors approved the payment of interim dividends in respect of the first 9 months 2017 in the amount of 5.12 rubles per ordinary share, i.e. 25.6 rubles per one GDR. Dividends were paid on January 26, 2018.

Based on strong and better than budgeted financial results of 2017, on April 24, 2018 the Board of Directors recommended the payment of final dividends in respect of FY 2017 in the amount of 6.83 rubles per ordinary share, i.e. 34.15 rubles per one GDR.

However, the company's long-term dividend policy stays unchanged - HMS targets to pay out total dividends in the region of 50% of the Profit attributable to shareholders for the year, subject to capital constraints such as debt and liquidity position and forecast.

If approved at the Annual General Meeting of Shareholders, total dividends for 2017 will amount to 11.95 rubles per ordinary share or 59.75 rubles per one GDR.

WEBCAST TO DISCUSS 2017 FY IFRS FINANCIAL RESULTS

Date: Thursday, April 26, 2018

Time: 5.00 PM (MOSCOW) / 3.00 PM (London) / 4.00 PM (CET) / 10.00 AM (NY)

Speaker:

Inna Kelekhsaeva – Deputy Head of Capital markets

Q&A session:

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)330 336 9105

UK Toll Free: 0800 358 6377

US Local: +1 323 701 0225

US Toll Free: 888 394 8218

Conference ID: 7452073

Title: HMS Group 2017 FY 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=5535>

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

We will share materials on [HMS' investor website](#) ahead of the webcast.

Contacts:

Investor Relations, ir@hms.ru

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.

Press Release Information Accuracy Disclaimer

Information published in press releases was accurate at the time of publication but may be superseded by subsequent releases or other information.

LEI: 254900DDFETNLASV8M53

HMS Hydraulic Machines & Systems Group plc
Consolidated Statement of Financial Position at 31 December 2017
(in thousands of Russian Roubles, unless otherwise stated)

	31 December 2017	31 December 2016
ASSETS		
Non-current assets:		
Property, plant and equipment	14,563,544	13,908,291
Other intangible assets	663,616	712,527
Goodwill	2,937,695	2,863,925
Investments in associates	84,829	88,724
Deferred income tax assets	377,902	366,057
Other long-term assets	20,541	29,040
Investment property	222,929	233,994
Total non-current assets	18,871,056	18,202,558
Current assets:		
Inventories	7,776,096	7,228,293
Trade and other receivables and other financial assets	16,915,052	14,021,896
Current income tax receivable	178,566	169,650
Cash and cash equivalents	4,620,601	2,989,691
Total current assets	29,490,315	24,409,530
TOTAL ASSETS	48,361,371	42,612,088
EQUITY AND LIABILITIES		
EQUITY		
Share capital	48,329	48,329
Share premium	3,523,535	3,523,535
Treasury shares	(404,994)	(323,556)
Other reserves	122,730	122,730
Currency translation reserve	(652,109)	(607,393)
Retained earnings	7,073,645	6,348,279
Equity attributable to the shareholders of the Company	9,711,136	9,111,924
Non-controlling interests	3,145,950	2,972,005
TOTAL EQUITY	12,857,086	12,083,929
LIABILITIES		
Non-current liabilities:		
Long-term borrowings	13,065,129	12,770,486
Deferred income tax liability	1,617,238	1,579,152
Retirement benefit obligations	525,436	519,397
Provisions for liabilities and charges	116,835	151,359
Other long-term payables	204,394	162,984
Total non-current liabilities	15,529,032	15,183,378
Current liabilities:		
Trade and other payables	15,081,200	10,417,155
Short-term borrowings	2,977,261	3,565,875
Provisions for liabilities and charges	771,877	531,075
Retirement benefit obligations	67,314	72,621
Current income tax payable	72,610	53,278
Other taxes payable	1,004,991	704,777
Total current liabilities	19,975,253	15,344,781
TOTAL LIABILITIES	35,504,285	30,528,159
TOTAL EQUITY AND LIABILITIES	48,361,371	42,612,088

HMS Hydraulic Machines & Systems Group plc
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017
(in thousands of Russian Roubles, unless otherwise stated)

	2017	2016
Revenue	44,422,177	41,582,388
Cost of sales	(32,535,607)	(30,798,509)
Gross profit	11,886,570	10,783,879
Distribution and transportation expenses	(1,784,967)	(1,699,610)
General and administrative expenses	(4,999,086)	(4,523,183)
Other operating expenses, net	(547,307)	(547,886)
Impairment of property, plant and equipment	-	(18,685)
Impairment of goodwill	-	(370,360)
Operating profit	4,555,210	3,624,155
Finance income	168,660	174,213
Finance costs	(1,775,092)	(1,905,206)
Share of results of associates	(331)	(257)
Profit before income tax	2,948,447	1,892,905
Income tax expense	(878,349)	(694,475)
Profit for the year	2,070,098	1,198,430
Profit attributable to:		
Shareholders of the Company	1,834,264	1,196,789
Non-controlling interests	235,834	1,641
Profit for the year	2,070,098	1,198,430
Other comprehensive (loss)/income:		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurement of post-employment benefit obligations	(23,313)	8,390
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	(69,526)	(1,164,504)
Currency translation differences of associates	(3,564)	(17,059)
Other comprehensive loss for the year	(96,403)	(1,173,173)
Total comprehensive income for the year	1,973,695	25,257
Total comprehensive income/(loss) attributable to:		
Shareholders of the Company	1,768,256	106,559
Non-controlling interest	205,439	(81,302)
Total comprehensive income for the year	1,973,695	25,257
Basic and diluted earnings per ordinary share for profit attributable to the ordinary shareholders (RR per share)	16.32	10.53

HMS Hydraulic Machines & Systems Group plc
Consolidated Statement of Cash Flows for the year ended 31 December 2017
(in thousands of Russian Roubles, unless otherwise stated)

	2017	2016
Cash flows from operating activities		
Profit before income tax	2,948,447	1,892,905
Adjustments for:		
Depreciation and amortisation	1,541,946	1,553,657
Loss from disposal of property, plant and equipment and intangible assets	45,822	9,053
Finance income	(168,660)	(174,213)
Finance costs	1,775,092	1,905,206
Change in retirement benefits obligations	36,248	90,479
Change in warranty provision	(48,908)	67,297
Change in provision for impairment of trade and other receivables and other financial assets	3,815	38,179
Change in provision for obsolete inventories	163,520	45,922
Change in provision for legal claims	195,830	55,408
Share-based compensation	93,218	35,917
Impairment of goodwill	-	370,360
Impairment of property, plant and equipment	-	18,685
Foreign exchange loss/(gain), net	72,300	65,031
Amortisation of government grants	(16,777)	(15,108)
Loss on revaluation of redemption liability	-	17,960
Change in provision for tax risks, other than income tax	14,984	13,096
Impairment of taxes receivable	6,204	101,948
Share of results of associates	331	257
Operating cash flows before working capital changes	6,663,412	6,092,039
Increase in inventories	(782,888)	(833,072)
Increase in trade and other receivables	(2,758,024)	(2,488,790)
Increase in current income tax receivable	(8,916)	(16,970)
Increase/(decrease) in taxes payable	247,774	(19,916)
Increase in accounts payable and accrued liabilities	4,177,130	1,708,380
Cash from operations	7,538,488	4,441,671
Income tax paid	(739,534)	(773,816)
Interest paid	(1,687,545)	(2,036,200)
Interest received	121,142	150,907
Decrease in restricted cash	-	25,792
Net cash from operating activities	5,232,551	1,808,354
Cash flows from investing activities		
Repayment of loans advanced	65,884	63,073
Loans advanced	(57,507)	(187,837)
Proceeds and expenses from sale of property, plant and equipment and intangible assets, net	12,215	20,190
Interest received	4,040	17,527
Purchase of property, plant and equipment, net of VAT	(1,921,001)	(1,566,691)
Acquisition of intangible assets, net of VAT	(238,225)	(134,138)
Net cash used in investing activities	(2,134,594)	(1,787,876)
Cash flows from financing activities		
Repayments of borrowings	(18,561,873)	(10,117,158)
Proceeds from borrowings	18,126,821	10,756,815
Proceeds from government grant	78,945	50,000
Payment for finance lease	(6,569)	(6,382)
Buy back of issued shares	(81,438)	(110,067)
Acquisition of non-controlling interest in subsidiaries	-	(346,900)
Dividends related to Long-term Incentive Program	(17,696)	-
Dividends paid to non-controlling shareholders of subsidiaries	(37,513)	(40,798)
Dividends paid to the shareholders of the Company	(961,510)	(579,863)
Net cash used in financing activities	(1,460,833)	(394,353)
Net increase/(decrease) in cash and cash equivalents	1,637,124	(373,875)
Effect of exchange rate changes on cash and cash equivalents and effect of translation to presentation currency	(6,214)	(132,854)
Cash and cash equivalents at the beginning of the year	2,989,691	3,496,420
Cash and cash equivalents at the end of the year	4,620,601	2,989,691

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

ⁱⁱ The oil and gas equipment and projects 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 standard specifications, and compressor-based integrated solutions.

^{iv} The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.