

## HMS Group announces management statement and financial highlights for 3 months 2017

Moscow, Russia – June 5, 2017 – 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 3 months ended March 31, 2017.

### Financial highlights 3m 2017:

- Revenue grew 8 percent yoy to Rub 9.8 billion
- EBITDA<sup>1</sup> declined 11 percent yoy to Rub 1.0 billion with EBITDA margin down to 10.7 percent
- Operating profit increased 14 percent yoy to Rub 557 million, operating margin up to 5.7 percent
- Profit for the period totalled Rub 77 million
  
- Total debt declined 3 percent yoy to Rub 15.8 billion
- Net debt stable at Rub 13.0 billion
- Net debt-to-EBITDA LTM ratio amounted to 2.08x

### Operational highlights 3m 2017:

- Backlog reached its historical maximum of Rub 36.0 billion, up 31 percent yoy
- Order intake up 88 percent yoy to Rub 22.5 billion

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<sup>1</sup> 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.

### Change in Business segments and reporting structure

Due to the change in the internal management and reporting structure effective 1 January 2017, the results of the Group's subsidiaries Giprotymenneftegaz PJSC and Institute Rostovskiy Vodokanalproekt OJSC since 1 January 2017 are presented within "Oil and gas equipment" segment, whereas previously these entities were included in "Engineering, procurement and construction" and "Industrial pumps" segments, respectively. Additionally, starting from 1 January 2017, "Engineering, procurement and construction" segment was renamed "Construction" segment, and "Oil and gas equipment" segment was renamed "Oil and gas equipment and projects" segment. These changes have been reflected in the segment information, both for reporting and comparative periods.

## OPERATING REVIEW

### BACKLOG & ORDER INTAKE

**Backlog** increased to its historic maximum of Rub 36,036 million. The main driver was the oil & gas equipment business segment.

Backlog, Rub mn	2017 3m	2016 3m	Change yoy
Industrial pumps	10,147	9,759	4%
Oil & Gas equipment	18,351	8,324	120%
Compressors	6,819	8,884	-23%
Construction	719	494	46%
<b>Total</b>	<b>36,036</b>	<b>27,461</b>	<b>31%</b>

In the pump business segment, the backlog increased by 4 percent yoy to Rub 10,147 million based on growth of recurring business.

In the oil & gas equipment and projects business segment, the backlog grew by 120 percent because of growth both of large contracts and recurring business.

The compressors, in contrast, declined by 23 percent because of revenue recognition of a large contract signed in the previous quarter combined with fewer recurring contracts signed in the reporting period. Though there was growth mainly in the oil & gas business segment, a significant part of a Rub 10.2 billion oil & gas equipment contract will be executed by the compressor business segment.

The construction grew by 46 percent to Rub 719 million.

**Order intake**<sup>2</sup> for 3 months 2017 broke the record and reached Rub 22,495 million (+88% yoy) mainly because of two large contracts signed in the reporting period, though recurring business' orders portfolio also showed growth, at 30 percent yoy.

There were two large contracts signed:

- Rub 10.2 billion: Delivery of oil & gas equipment for one of the largest gas fields in Russia;
- Rub 3.9 billion: Delivery of compressor equipment to gas booster stations.

<sup>2</sup> According to management accounts

Order intake, Rub mn	2017 3m	2016 3m	Change yoy
Industrial pumps	3,427	2,855	20%
Oil & gas equipment	14,044	5,429	159%
Compressors	4,903	3,429	43%
Construction	121	244	-51%
<b>Total</b>	<b>22,495</b>	<b>11,957</b>	<b>88%</b>

## GROUP PERFORMANCE

Revenue grew by 8 percent yoy and amounted to Rub 9,760 million on the back of the pump's revenue growth. In general, 3 months 2017 financial results were relatively low but in line with our expectations. The pump business segment results, which were very weak in 1Q 2016, returned to their normal level.

EBITDA declined by 11 percent to Rub 1,047 million mainly due to lower results of the oil & gas business segment and negative EBITDA in the construction business segment. Higher EBITDA in the compressors and the pumps didn't compensate for this decrease. EBITDA margin was down to 10.7% versus 13.0% in the previous year.

Rub mn	2017 3m	2016 3m	Change yoy
Revenue	9,760	9,074	8%
EBITDA	1,047	1,181	-11%
EBITDA margin	10.7%	13.0%	

In terms of contracts' type, revenue growth was supported by recurring business, as large contracts generated less revenue in the reporting period. And this, in turn, affected EBITDA and EBITDA margin, as recurring business has lower profitability.

Cost of sales, Rub mn	2017 3m	2016 3m	Change yoy	Share of 2017 3m revenue	Share of 2016 3m revenue
<b>Cost of sales</b>	<b>7,713</b>	<b>6,983</b>	<b>10%</b>	<b>79%</b>	<b>77%</b>
Materials and components	6,195	5,093	22%	63%	56%
Labour costs	1,228	1,203	2%	13%	13%
Construction & design and engineering services of subcontractors	212	301	-30%	2%	3%
Depreciation and amortization	321	339	-5%	3%	4%
Others	-243	46	-629%	-2%	1%

**Cost of sales** grew by 10 percent yoy to Rub 7,713 million because of outpacing growth of materials and components due to changes in sales structure: the company sold more products with higher level of material intensity. The share of labour costs in revenue stayed stable at 13 percent, though increased by 2 percent yoy in absolute figures.

	2017 3m	2016 3m	Change yoy	Share of 2017 3m revenue	Share of 2016 3m revenue
Distribution and transportation	431	413	5%	4%	5%
General and administrative	1,057	1,038	2%	11%	11%
<b>SG&amp;A expenses</b>	<b>1,488</b>	<b>1,451</b>	<b>3%</b>	<b>15%</b>	<b>16%</b>
Other operating expenses	2	150	-99%	0%	2%
<b>Operating expenses ex. Cost of sales</b>	<b>1,489</b>	<b>1,601</b>	<b>-7%</b>	<b>15%</b>	<b>18%</b>
Finance costs	500	479	4%	5%	5%

**SG&A expenses<sup>3</sup>** in absolute figures grew 3 percent yoy, as a share of revenue SG&A expenses decreased to 15 percent.

**Operating expenses excl. cost of sales** declined by 7 percent and as a percentage of revenue dropped to 15 percent for 3 months 2017 vs. 18% in the comparative period. The main reason was a significant reduction in other operating expenses because of lower foreign exchange loss and a change in provision for legal claims, among others.

**Distribution and transportation expenses** grew by 5 percent yoy to Rub 431 million. As a percentage of revenue, they accounted for 4 percent vs. 5 percent for 3 months 2016.

**General and administrative expenses** grew by 2 percent yoy only to Rub 1,057 million and stayed stable as a percentage of revenue at 11 percent.

**Operating profit** grew by 14 percent to Rub 557 million from Rub 491 million, and operating margin increased to 5.7% from 5.4% for 3 months of the comparative period.

Finance costs, Rub mn	2017 3m	2016 3m	Change yoy
<b>Finance costs</b>	<b>500</b>	<b>479</b>	<b>4%</b>
<i>Interest expenses</i>	<i>501</i>	<i>507</i>	<i>-1%</i>
<i>Finance lease expenses</i>	<i>1</i>	<i>0</i>	<i>na</i>
<i>Foreign exchange loss, net</i>	<i>-2</i>	<i>-28</i>	<i>-93%</i>
Interest rate, ave	11.4%	12.2%	
Interest rate Rub, ave	11.6%	13.0%	

**Finance costs** grew by 4 percent yoy, where interest expenses, in contrast, were 1 percent lower yoy, and foreign exchange loss related to borrowings decreased to Rub 2 million from Rub 28 million in the compared period.

**Profit for the period** increased to Rub 77 million from Rub 21 million for the period of 3 months 2016.

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

## SEGMENT PERFORMANCE

### Industrial pumps Business Segment<sup>i</sup>

Industrial pumps, Rub mn	2017 3m	2016 3m	Change yoy
Revenue	3,530	3,144	12%
EBITDA	576	289	99%
EBITDA margin	16.3%	9.2%	

The industrial pumps business segment's revenue increased by 12 percent yoy to Rub 3,530 million from Rub 3,144 million. EBITDA doubled to Rub 576 million from Rub 289 million in the compared period, and EBITDA margin increased to 16.3% vs 9.2% last year.

### Oil & Gas equipment and projects Business Segment<sup>ii</sup>

Oil & Gas equipment, Rub mn	2017 3m	2016 3m	Change yoy
Revenue	4,661	4,301	8%
EBITDA	447	807	-45%
EBITDA margin	9.6%	18.8%	

The oil & gas equipment and projects business segment's revenue grew by 8 percent yoy to Rub 4,661 million from Rub 4,301 million based on recurring business. EBITDA was down almost half to Rub 447 million due to a decrease in EBITDA generated by large contracts. As a result, EBITDA margin declined to 9.6%, not only because of fewer large contracts in the reporting period, but also because recurring business had lower profitability vs. the compared period.

### Compressors Business Segment<sup>iii</sup>

Oil & Gas equipment, Rub mn	2017 3m	2016 3m	Change yoy
Revenue	1,653	1,451	14%
EBITDA	172	60	185%
EBITDA margin	10.4%	4.2%	

Revenue increased by 14 percent yoy to Rub 1,653 million, and EBITDA grew 185 percent yoy and reached Rub 172 million in comparison to Rub 60 million EBITDA in the previous year. The main reason was an increase in volume of large contracts under execution.

EBITDA margin of the compressor business segment hit 10.4%.

### Construction<sup>iv</sup>

Construction, Rub mn	2017 3m	2016 3m	Change yoy
Revenue	128	340	-62%
EBITDA	-53	64	-183%
EBITDA margin	-41.5%	18.7%	

The construction delivered weak results both in revenue and EBITDA. We do not observe an improvement in Russia's construction market: competition is worsening, that drives prices down. As a result, the construction margin turned negative 41.5%.

### FINANCIAL REVIEW

#### Cash flow performance

**Working capital** increased by 5 percent yoy due to execution of large contracts, but as a share of revenue stood at 22 percent.

Working capital & Capex, Rub mn	2017 3m	2016 3m	Change yoy
Working capital	9,133	8,712	5%
Working capital / Revenue LTM	22%	22%	
Capital expenditures	297	415	-29%

HMS Group generated positive operating cash flow of Rub 1,086 million, which is almost four-times higher than in the compared period.

Capital expenditures decreased by 29 percent yoy to Rub 297 million. The company invested in the Localization project Rub 56 million.

Cash flow performance, Rub mn	2017 3m	2016 3m	Change yoy
Net cash from operating activities	1,086	260	318%
Net cash used in investing activities	-289	-459	-37%
<b>Free cash flow (FCF)</b>	<b>797</b>	<b>-199</b>	<b>-500%</b>
Net cash (used in) / from financing activities	-894	159	-662%
Cash & cash equivalents	2,861	3,405	-16%

Decreased investment activities and increased operating cash flow resulted in positive free cash flow<sup>4</sup> of Rub 797 million vs. negative Rub 199 million for 3 months 2016.

<sup>4</sup> 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.

## Debt and Liquidity position

Debt, Rub mn	2017 3m	2016 3m	Change yoy
Total debt	15,842	16,356	-3%
Long-term debt	12,510	13,670	-8%
Short-term debt	3,332	2,687	24%
Net debt	12,981	12,951	0%
Net debt / EBITDA LTM	2.08	1.85	

**Total debt** decreased by 3 percent yoy to Rub 15,842 million from Rub 16,356 million as of 01 April 2016.

**Net debt** stood stable at Rub 12,981 million, and the **Net debt-to-LTM EBITDA ratio** amounted to 2.08x. This is higher than 1.85x recorded last year, because of lower EBITDA LTM in the reporting period.

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

### Contracts

In May 2017, HMS Group signed two large contracts:

- Rub 2.7 billion: Delivery of pumping equipment for Kursk Nuclear Power Plant Phase II;
- Rub 23.3 billion: Delivery of various equipment to a gas processing plant in the European part of Russia.

### Financial management

HMS Group and a Bank agreed that the bank decreased interest rate on Rub 1.2 billion credit line from 12.9% to 11.0%.

## DIVIDENDS AND HMS GDRS

During the period from April 26, 2017 up to and including June 5, 2017, HMS Group did not make any purchases of its global depository receipts ("GDRs"). As of today, HMS Group has purchased 903,562 GDRs (3.86 percent of its issued share capital).

On April 25, 2017, the Board of Directors recommended:

- The payment by the Company of a final dividend in respect of the financial year ended December 31, 2016, of 5.12 Rubles per ordinary share, amounting to the maximum total dividend of Rub 600 million;
- Dividends are subject to the approval of the shareholders at the AGM on June 20, 2017. Subject to this approval, the dividends will be paid on June 27, 2017, to shareholders on HMS' register at COB (UK time) on June 9, 2017 (the record date).

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**WEBCAST TO DISCUSS 3 MONTHS 2017 IFRS FINANCIAL RESULTS**

**TUESDAY, 6 June 2017**

5.00 PM (MOSCOW) / 3.00 PM (London) / 2.00 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 368 0935

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US Toll Free: 1 866 548 4713

Conference ID: 1532198

Title: HMS Group 3 months 2017 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=4693>

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 depository receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

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<sup>i</sup> 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.

<sup>ii</sup> 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.

<sup>iii</sup> 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.

<sup>iv</sup> The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.