

HMS Group announces management statement and financial highlights for 3 months 2018

HMS HYDRAULIC MACHINES & SYSTEMS PLC (the “HMS Group”, “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 three months ended March 31, 2018.

Financial highlights 3 months 2018:

- Revenue: Rub 8.7 bn (-11% yoy)
- EBITDA¹: Rub 1.1 bn (+3% yoy), EBITDA margin 12.4%
- Operating profit: Rub 430 mn (-23% yoy), operating margin down to 4.9%
- Profit for the period: Rub 19 mn (-75% yoy), net income margin 0.2%

- Total debt: Rub 17.1 bn (+8% yoy)
- Net debt: Rub 14.8 bn (+14% yoy)
- Net debt-to-EBITDA LTM ratio: 2.16x

Operational highlights 3 months 2018:

- Backlog: Rub 46.0 bn (+28% yoy)
- Order intake: Rub 10.4 bn (-54% 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

Backlog grew to Rub 46.0 billion (+28% yoy). The main driver was the pumps business segment, though all the four business segments grew, due to a number of large integrated contracts signed and executed in the reporting period.

Backlog, Rub mn	2018 3m	2017 3m	Change yoy
Industrial pumps	15,699	10,147	55%
Oil & Gas equipment and projects	18,743	18,351	2%
Compressors	7,777	6,819	14%
Construction	3,736	719	419%
Total	45,953	36,036	28%

ORDER INTAKE

Order intake² decreased more than twice to Rub 10.4 billion.

Almost all business segments of HMS declined, except the industrial pumps, which increased by 23% yoy due to the dynamics of the recurring business. The oil and gas equipment and projects segment was down to Rub 3.4 billion because of absence of large contracts signed in the reporting period. The compressors declined 39% yoy to Rub 3.0 billion because of a decline in both large contracts and recurring business.

However, in terms of contracts' mix, the drop was only because of fewer large contracts signed in the reporting period, as the recurring business grew by a minor 1% yoy. But those fluctuations are normal for the order intake made up of large projects.

Order intake, Rub mn	2018 3m	2017 3m	Change yoy	2018 3m	2017 4Q	Change qoq
Industrial pumps	4,229	3,427	23%	4,229	8,762	-52%
Oil & gas equipment	3,436	14,044	-76%	3,436	4,025	-15%
Compressors	2,995	4,903	-39%	2,995	1,268	136%
Construction	(253)	121	-310%	(253)	462	-155%
Total	10,408	22,495	-54%	10,408	14,516	-28%

² According to management accounts

GROUP PERFORMANCE

Revenue decreased by 11 percent yoy to Rub 8.7 billion.

EBITDA was up by 3 percent yoy to Rub 1.1 billion. Solid results of the oil & gas equipment and projects segment were the contributor to the company's EBITDA growth.

Rub bn	2018 3m	2017 3m	Change yoy	2018 1Q	2017 4Q	Change qoq
Revenue	8,726	9,760	-11%	8,726	13,011	-33%
EBITDA	1,080	1,047	3%	1,080	1,852	-42%
EBITDA margin	12.4%	10.7%		12.4%	14.2%	

In terms of contracts' type, revenue from the recurring business declined by 33 percent yoy. Large contracts, in contrast, advanced 78 percent yoy. Though EBITDA from the recurring business decreased by 63 percent yoy, the doubled EBITDA, generated by large contracts, compensated for that decline.

All the above led to an increase in EBITDA margin to 12.4% from 10.7% in the comparative period.

Cost of sales, Rub mn	2018 3m	2017 3m	Change yoy	Share of 2018 3m revenue	Share of 2017 3m revenue
Cost of sales	6,548	7,713	-15%	75.0%	79.0%
Materials and components	4,008	6,195	-35%	45.9%	63.5%
Labour costs	1,426	1,228	16%	16.3%	12.6%
Construction and design and engineering services of subcontractors	322	212	52%	3.7%	2.2%
Depreciation and amortization	365	321	14%	4.2%	3.3%
Others	427	-243	-276%	4.9%	-2.5%

Cost of sales was 15 percent yoy down to Rub 6.5 billion mainly due to a decline in materials and components (-35% yoy), thus reflecting the products mix's change. As a percentage of revenue, the cost of sales also decreased, from 79% to 75%. That led to a higher gross profit of Rub 2.2 billion (+6% yoy) and an expanded gross margin of 25.0% vs. 21.0% for 3 month 2017.

Rub mn	2018 3m	2017 3m	Change yoy	Share of 2018 3m revenue	Share of 2017 3m revenue
Distribution and transportation	460	431	7%	5.3%	4.4%
General and administrative	1,227	1,057	16%	14.1%	10.8%
SG&A expenses	1,687	1,488	13%	19.3%	15.2%
Other operating expenses	61	2	3758%	0.7%	0.0%
Operating expenses ex. Cost of sales	1,748	1,489	17%	20.0%	15.3%
Finance costs	380	500	-24%	4.4%	5.1%

SG&A expenses³ increased by 13 percent yoy, and as a share of revenue grew to 19.3% from 15.2%.

Operating expenses excl. cost of sales grew by 17 percent yoy. As a share of revenue they also increased, to 20.0%. The main reason was an increase in labour costs due to a long-term incentive program and growth of wages.

Distribution and transportation expenses grew by 7 percent yoy to Rub 460 million. The main reason was growth of labour costs and social taxes. As a share of revenue, distribution and transportation expenses also grew, to 5.3% from 4.4%.

General and administrative expenses grew by 16 percent yoy to Rub 1.2 billion due to combined growth of labour costs and social taxes. As a share of revenue, general and administrative expenses grew to 14.1% partly due to quarterly volatility of revenue.

Operating profit decreased by 23 percent yoy to Rub 430 million from Rub 557 million. Operating margin declined to 4.9%.

Finance costs, Rub mn	2018 3m	2017 3m	Change yoy
Finance costs	380	500	-24%
<i>Interest expenses</i>	374	501	-25%
<i>Fees for early repayment of loans</i>	5	-	Na
<i>Foreign exchange gain from borrowings, net</i>	(1)	(2)	-70%
<i>Finance lease expenses</i>	0	1	-40%
Interest rate, average	9.0%	11.4%	
Interest rate Rub, ave	9.1%	11.6%	

Finance costs decreased by 24 percent yoy. The main factor was a decrease in interest expenses (-25% yoy) due to lower interest rates as a result of debt portfolio refinancing. Average rates decreased from 11.4% p.a. to 9.0% p.a.

Profit for the period was down 75 percent yoy to Rub 19 million from Rub 77 million for 3 months 2017.

BUSINESS SEGMENTS PERFORMANCE

Industrial pumpsⁱ

The industrial pumps business segment's revenue decreased by 15 percent yoy to Rub 3.0 billion from Rub 3.5 billion. EBITDA was down by 39 percent yoy to Rub 353 million. EBITDA margin declined to 11.8%.

Industrial pumps, Rub mn	2018 3m	2017 3m	Change yoy	2018 1Q	2017 4Q	Change qoq
Revenue	2,997	3,530	-15%	2,997	5,141	-42%
EBITDA	353	576	-39%	353	1,034	-66%
EBITDA margin	11.8%	16.3%		11.8%	20.1%	

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

Oil & Gas equipment and projects (OGEP)ⁱⁱ

The OGEP business segment's revenue grew 10 percent yoy to Rub 5.1 billion, and EBITDA was up 85 percent yoy to Rub 828 million, fully based on growth of large projects.

EBITDA margin increased to 16.2% from 9.6% in the comparative period.

OGEP, Rub mn	2018 3m	2017 3m	Change yoy	2018 1Q	2017 4Q	Change qoq
Revenue	5,111	4,661	10%	5,111	6,499	-21%
EBITDA	828	447	85%	828	1,132	-27%
EBITDA margin	16.2%	9.6%		16.2%	17.4%	

Compressorsⁱⁱⁱ

Revenue grew by 14 percent yoy to Rub 1.9 billion. EBITDA, in contrast, was down by 42 percent yoy to Rub 99 million. EBITDA margin decreased to 5.3%. The decline in the segment's profitability was due to execution of a number of lower-than-last-year-margin large compressor-related contracts.

Compressors, Rub mn	2018 3m	2017 3m	Change yoy	2018 1Q	2017 4Q	Change qoq
Revenue	1,880	1,653	14%	1,880	2,481	-24%
EBITDA	99	172	-42%	99	47	110%
EBITDA margin	5.3%	10.4%		5.3%	1.9%	

Construction^{iv}

Construction doubled its revenue to Rub 382 million. But EBITDA demonstrated a negative value.

Construction, Rub mn	2018 3m	2017 3m	Change yoy	2018 1Q	2017 4Q	Change qoq
Revenue	382	128	199%	382	597	-36%
EBITDA	(122)	(53)	129%	(122)	44	-373%
EBITDA margin	-31.8%	-41.5%		-31.8%	7.4%	

FINANCIAL REVIEW

CASH FLOW PERFORMANCE

Working capital was up 26 percent yoy to Rub 11.5 billion from Rub 9.1 billion for 3 months 2017. Working capital was higher than average as the company was at a certain stage of some large projects' execution. Compared to the year-end 2017, working capital grew significantly due to a few material payments from customers obtained in December 2017.

Working capital & Capex, Rub mn	2018 3m	2017 3m	Change yoy
Working capital	11,535	9,133	26%
Working capital / Revenue LTM	27%	22%	
Capital expenditures	334	297	13%

Capital expenditures increased by 13 percent yoy to Rub 334 million.

HMS Group generated a **negative operating cash flow** of Rub 2.7 billion compared to a positive cash flow of Rub 1.1 billion last year, due to the growth of working capital. That resulted in a **negative free cash flow**⁴ of Rub 2.9 billion.

Cash flow performance, Rub mn	2018 3m	2017 3m	Change yoy
Net cash (used in)/from operating activities	(2,648)	1,086	-344%
Net cash used in investing activities	(258)	(289)	-11%
Free cash flow (FCF)	(2,906)	797	-464%
Net cash from/(used in) financing activities	574	(894)	-164%
Cash & cash equivalents, at the end of the period	2,298	2,861	-20%

DEBT POSITION

Total debt increased by 8 percent yoy to Rub 17.1 billion from Rub 15.8 billion.

Net debt was up by 14 percent yoy to Rub 14.8 billion. The **Net debt-to-EBITDA LTM ratio** increased to 2.16x.

Leverage, Rub mn	2018 3m	2017 3m	Change yoy
Total debt	17,140	15,842	8%
<i>Long-term debt</i>	<i>16,140</i>	<i>12,510</i>	<i>29%</i>
<i>Short-term debt</i>	<i>1,000</i>	<i>3,332</i>	<i>-70%</i>
Net debt	14,842	12,981	14%
Net debt / EBITDA LTM	2.16x	2.08x	

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

Discontinuance of Grigorishin's litigation

On 12 February 2014, the Company was served in Cyprus with an interim order of the District Court of Nicosia (the "Order"). The Order was obtained on an ex parte basis by Konstantin Grigorishin, and certain other plaintiffs against a number of defendants, including the Company, certain of its shareholders and directors, and The Bank of New York (Nominees) Limited. Amongst other things, the Order froze the property of most of the defendants, including the Company, but excluding The Bank of New York (Nominees) Limited and two other defendants, for an amount up to EUR 400 million.

In April 2014, following written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia (the "Court") discharged the Order in full, including in

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.

respect of the Company and its shareholders and directors. Following such discharge, there were no further substantive steps, known to the Company, by plaintiffs to proceed with their claim against the Company or its directors. The Company has maintained that there was no legal ground for the claims and allegations made by Mr. Grigorishin and the other plaintiffs against the Company.

On 29 March 2018, a Notice of Discontinuance was filed by plaintiffs with the Court. Following the filing of the Notice of Discontinuance and an appearance of our legal representatives before the Court on 4 May 2018, the Court ordered the discontinuance of the action against the defendants. An English translation of the Court's order of the discontinuance was made available to the Company on 16 May, 2018. The discontinuance of the proceedings was not a result of any settlement agreement, and the Company was not required to make any payments to the plaintiffs.

FINANCIAL MANAGEMENT

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

DIVIDENDS AND HMS GDRS

During the period from April 25, 2018 up to and including June 7, 2018, HMS Group hasn't purchased any of its global depositary receipts ("GDRs"). As of today, HMS Group has purchased 1,076,887 GDRs (4.60 percent of its issued share capital).

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.

The Annual General Meeting will be held on June 21, 2018. The final dividends will be paid on July 3, 2018, to shareholders on the company's register at close of business (UK time) on June 15, 2018 (the "Record Date").

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 3 MONTHS 2018 IFRS FINANCIAL RESULTS

Date: Friday, June 08, 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: +7 495 646 9190

UK Local: +44 (0)330 336 9411

UK Toll Free: 0 800 279 7204

US Local: +1 646 828 8144

US Toll Free: 800 347 6311

Conference ID: 6076892

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=5623>

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:

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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.

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.

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.