

## HMS Group Reports 2Q 2019 Profit of Rub 321 million

Moscow, Russia – September 25, 2019 – 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 the six months ended June 30, 2019.

### Financial highlights 6 months 2019:

- Revenue: Rub 23.4 bn (+15% yoy)
- EBITDA<sup>1</sup>: Rub 2.0 bn (-41% yoy), EBITDA margin at 8.3%
- Operating profit: Rub 607 mn (-70% yoy)
- Profit (loss) for the period: Rub (173) mn
  
- Total debt: Rub 20.0 bn (+8% yoy)
- Net debt: Rub 15.6 bn (+15% yoy)
- Net debt-to-EBITDA LTM ratio: 2.97x

### Operational highlights 6 months 2019:

- Backlog: Rub 43.4 bn (+35% yoy)
- Order intake: Rub 24.5 bn (+33% yoy)

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<sup>1</sup> EBITDA is defined as operating profit/(loss) 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 acquisition, defined benefits scheme expense and provisions (including provision for obsolete inventory, ECL allowance and provision for impairment of trade and other receivables and other financial assets, 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.

## GROUP PERFORMANCE

### RESULTS

| <i>in millions of Rub</i>    | 6m 2019 | 6m 2018 | Change yoy | 2Q 2019 | 1Q 2019 | Change qoq |
|------------------------------|---------|---------|------------|---------|---------|------------|
| Orders                       | 24,541  | 18,401  | 33%        | 13,054  | 11,487  | 14%        |
| Backlog                      | 43,412  | 32,215  | 35%        |         |         |            |
| Revenue                      | 23,419  | 20,343  | 15%        | 14,565  | 8,854   | 65%        |
| EBITDA                       | 1,953   | 3,319   | -41%       | 1,452   | 501     | 190%       |
| <i>EBITDA margin</i>         | 8.3%    | 16.3%   |            | 10.0%   | 5.7%    |            |
| (Loss)/Profit for the period | (173)   | 961     | na         | 321     | (494)   | na         |
| Free cash flow               | (1,918) | (1,483) | na         | 864     | (853)   | na         |
| ROCE                         | 8.3%    | 14.8%   |            | 8.3%    | 10.8%   |            |

Order intake grew by 33% to Rub 24.5 billion based on growth in all business segments. In terms of contracts type, both recurring business and large contracts contributed to this growth.

Backlog of HMS Group grew to Rub 43.4 billion by 35% compared with Rub 32.2 billion last year, driven by all business segments except construction. In terms of contracts type, the growth was based on the recurring business and large integrated contracts also.

Revenue grew to Rub 23.4 billion, up by 15%, compared with Rub 20.3 billion for 6m 2018. Compressors and pumps contributed to this growth. EBITDA was down by 41% yoy to Rub 1.9 billion mainly due to negative results of oil & gas equipment segment.

Revenue from recurring business was up by 45% yoy. Large projects' revenue decreased by 17% yoy. EBITDA from recurring business declined 6% yoy and large projects contracted by 54% yoy.

EBITDA margin equaled 8.3%.

Depreciation & amortization was Rub 1.1 billion, up 28% yoy, compared with Rub 866 million for 6m 2018 due to acquired assets in 2018-2019.

Profit for 2Q 2019 at Rub 321 million didn't compensate loss in 1Q 2019, and loss for the period equaled Rub 173 million, compared with profit for the period of Rub 961 million for 6m 2018.

Free cash flow decreased to Rub (1.9) billion from Rub (1.5) billion for 6m 2018 because of Rub 700 million acquisition made in Feb 2019.

ROCE decreased because of lower operating profit for the last twelve months and higher average capital employed.

## EXPENSES AND OPERATING PROFIT

| <i>in millions of Rub</i>  | 6m 2019       | 6m 2018       | Change yoy | Share of 6m 2019 revenue | Share of 6m 2018 revenue |
|--|---------------|---------------|------------|--------------------------|--------------------------|
| <b>Cost of sales<sup>2</sup></b>                                   | <b>18,985</b> | <b>14,664</b> | <b>29%</b> | <b>81.1%</b>             | <b>72.1%</b>             |
| Materials and components   | 12,815        | 8,650         | 48%        | 54.7%                    | 42.5%                    |
| Labour costs incl Social taxes                                     | 3,433         | 3,539         | -3%        | 14.7%                    | 17.4%                    |
| Depreciation and amortization                                      | 941           | 747           | 26%        | 4.0%                     | 3.7%                     |
| Construction and design and engineering services of subcontractors | 917           | 732           | 25%        | 3.9%                     | 3.6%                     |
| Others   | 878           | 996           | -12%       | 3.7%                     | 4.9%                     |

Cost of sales was Rub 19.0 billion, up 29% yoy, compared with Rub 14.7 billion for 6m 2018, because, on the one hand, HMS portfolio consists of less profitable contracts than last year, and on the other hand, large contracts under execution have higher share of outsourced components in cost of sales (compressor contracts). Materials and components (+48% yoy), required for manufacturing, almost fully attributed to this growth.

Gross profit was down 22% yoy to Rub 4.4 billion, compared with Rub 5.7 billion for 6m 2018.

| <i>in millions of Rub</i>                   | 6m 2019      | 6m 2018      | Change yoy | Share of 6m 2019 revenue | Share of 6m 2018 revenue |
|---|--------------|--------------|------------|--------------------------|--------------------------|
| Distribution and transportation             | 951          | 933          | 2%         | 4.1%                     | 4.6%                     |
| General and administrative                  | 2,753        | 2,585        | 6%         | 11.8%                    | 12.7%                    |
| <i>SG&amp;A expenses</i>                    | <i>3,704</i> | <i>3,519</i> | <i>5%</i>  | <i>15.8%</i>             | <i>17.3%</i>             |
| Other operating expenses                    | 122          | 104          | 18%        | 0.5%                     | 0.5%                     |
| <i>Operating expenses ex. Cost of sales</i> | <i>3,827</i> | <i>3,623</i> | <i>6%</i>  | <i>16.3%</i>             | <i>17.8%</i>             |
| Operating loss/profit                       | 607          | 2,056        | -70%       | 2.6%                     | 10.1%                    |
| Finance costs                               | 838          | 772          | 9%         | 3.6%                     | 3.8%                     |

Distribution and transportation expenses were Rub 951 million, up 2% yoy, compared with Rub 933 million for 6m 2018, mainly due to an increase in transportation expenses (+3% yoy). As a share of revenue, distribution and transportation expenses was down to 4.1% compared with 4.6% last year.

General and administrative expenses were Rub 2.8 billion, up 6% yoy, compared with Rub 2.6 billion last year, mainly due to higher labour costs incl. social taxes (+6% yoy). In contrary, as a share of revenue, general and administrative expenses decreased to 11.8% from 12.7% for 6m 2018.

SG&A expenses<sup>3</sup> grew to Rub 3.7 billion, up 5% yoy. But as a share of revenue, they declined to 15.8% from 17.3%.

Operating profit was down to Rub 607 million, compared with Rub 2.1 billion last year (-70% yoy).

<sup>2</sup> Herein, materials & components, labour costs and social taxes, construction & design were additionally derived from Change in work in progress and finished goods, thereby do not coincide with the note in the financial statement

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

| <i>in millions of Rub</i>  | 6m 2019    | 6m 2018    | Change yoy |
|----------------------------|------------|------------|------------|
| <b>Finance costs</b>       | <b>838</b> | <b>772</b> | <b>9%</b>  |
| <i>Interest expenses</i>   | 827        | 767        | 8%         |
| Interest rate, average     | 8.8%       | 8.8%       |            |
| Interest rate Rub, average | 8.9%       | 8.9%       |            |

Finance costs were Rub 838 million, up by 9% yoy, compared with Rub 772 million for 6m 2018. The main factor was an increase of interest expenses (+8% yoy) due to a higher total debt level. Average rates stood unchanged at 8.8% p.a.

## BUSINESS SEGMENTS PERFORMANCE

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

| <i>in millions of Rub</i> | 6m 2019 | 6m 2018 | Change yoy | 2Q 2019 | 1Q 2019 | qoq  |
|---------------------------|---------|---------|------------|---------|---------|------|
| Orders                    | 10,572  | 8,444   | 25%        | 5,011   | 5,561   | -10% |
| Backlog                   | 19,398  | 15,744  | 23%        | 19,398  | 19,303  | 0%   |
| Revenue                   | 7,980   | 7,334   | 9%         | 4,739   | 3,241   | 46%  |
| EBITDA                    | 1,068   | 876     | 22%        | 793     | 275     | 188% |
| EBITDA margin             | 13.4%   | 11.9%   |            | 16.7%   | 8.5%    |      |

Order intake of industrial pumps grew by 25% yoy based on both recurring business and large contracts.

Backlog grew by 23% yoy to Rub 19.4 billion only because of increase in recurring orders received.

Revenue was Rub 8.0 billion, up 9% yoy, compared with Rub 7.3 billion for 6m 2018. EBITDA increased to Rub 1.1 billion, by 22% yoy, from Rub 876 million due to both recurring business and large contracts. EBITDA margin recovered to 13.4%.

### Oil and Gas equipment & projects (OGEP)<sup>ii</sup>

| <i>in millions of Rub</i> | 6m 2019 | 6m 2018 | Change yoy | 2Q 2019 | 1Q 2019 | Change qoq |
|---------------------------|---------|---------|------------|---------|---------|------------|
| Orders                    | 6,686   | 5,516   | 21%        | 3,679   | 3,008   | 22%        |
| Backlog                   | 7,550   | 4,594   | 64%        | 7,550   | 7,265   | 4%         |
| Revenue                   | 5,934   | 11,185  | -47%       | 3,528   | 2,406   | 47%        |
| EBITDA                    | (250)   | 2,084   | na         | (120)   | (130)   | na         |
| EBITDA margin             | -4.2%   | 18.6%   |            | -3.4%   | -5.4%   |            |

Order intake increased to Rub 6.7 billion from Rub 5.5 billion, fully due to recurring contracts. In 1H 2018, there were no large contracts signed, and order intake was fully composed of recurring orders.

Backlog was up to Rub 7.6 billion from Rub 4.6 billion, also based on recurring contracts.

Revenue was down 47% yoy to Rub 5.9 billion, compared with Rub 11.2 billion for 6m 2018. EBITDA and EBITDA margin turned negative due to the lack of large contracts under execution combined with a mix of recurring contracts, that had margins lower than usual.

### Compressors<sup>iii</sup>

| <i>in millions of Rub</i> | 6m 2019 | 6m 2018 | Change yoy | 2Q 2019 | 1Q 2019 | Change qoq |
|---------------------------|---------|---------|------------|---------|---------|------------|
| Orders                    | 7,177   | 4,666   | 54%        | 4,278   | 2,900   | 48%        |
| Backlog                   | 14,854  | 8,614   | 72%        | 14,854  | 16,880  | -12%       |
| Revenue                   | 8,938   | 3,403   | 163%       | 6,006   | 2,932   | 105%       |
| EBITDA                    | 835     | 336     | 148%       | 458     | 377     | 21%        |
| EBITDA margin             | 9.3%    | 9.9%    |            | 7.6%    | 12.9%   |            |

Order intake was up 54% yoy to Rub 7.2 billion, compared with Rub 4.7 billion, mainly due to large contracts signed.

Backlog gained 72% yoy to Rub 14.9 billion compared with Rub 8.6 billion last year.

Revenue demonstrated a significant 163% yoy growth to Rub 8.9 billion, based both on recurring business and large contracts. EBITDA grew 148% yoy to Rub 835 million. EBITDA margin declined to 9.3% compared with 9.9% for 6m 2018 due to outpacing growth of revenue.

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

| <i>in millions of Rub</i> | 6m 2019 | 6m 2018 | Change yoy | 2Q 2019 | 1Q 2019 | Change qoq |
|---------------------------|---------|---------|------------|---------|---------|------------|
| Orders                    | 105     | (226)   | na         | 87      | 18      | 374%       |
| Backlog                   | 1,610   | 3,263   | -51%       | 1,610   | 1,899   | -15%       |
| Revenue                   | 695     | 806     | -14%       | 359     | 336     | 7%         |
| EBITDA                    | 15      | (161)   | na         | 4       | 11      | -61%       |
| EBITDA margin             | 2.2%    | -20.0%  |            | 1.2%    | 3.3%    |            |

Order intake equaled Rub 105 million. Backlog declined to Rub 1.6 billion, compared with Rub 3.3 billion last year, due to execution of two large contracts signed in 2017-2018.

Revenue was Rub 695 million, down 14% yoy, from Rub 806 million for 6m 2018. EBITDA was positive Rub 15 million, compared with negative EBITDA of Rub (161) million last year.

### **WORKING CAPITAL AND CAPITAL EXPENDITURES**

| <i>in millions of Rub</i>     | 6m 2019 | 6m 2018 | Change yoy | 2Q 2019 | 1Q 2019 | Change qoq |
|-------------------------------|---------|---------|------------|---------|---------|------------|
| Working capital               | 9,508   | 9,990   | -5%        | 9,530   | 8,843   | 8%         |
| Working capital / Revenue LTM | 17%     | 23%     |            | 17%     | 17%     |            |
| Capex                         | 800     | 792     | 1%         | 293     | 506     | -42%       |
| Acquisition                   | 670     | -       |            | -       | 670     |            |

Working capital was Rub 9.5 billion, down by 5% yoy, due to its optimization. As a share of revenue, working capital declined to 17% from 23% in the comparing period.

Capital expenditures were Rub 800 million, up by a minor 1% yoy, compared with Rub 792 million last year. In February 2019, HMS acquired a group of companies engaged in manufacturing of oil and gas

equipment, located in Tumen, for a total consideration of Rub 700 million, paid by cash. Outflow of cash and cash equivalents on acquisition was Rub 670 million.

## DEBT POSITION

| <i>in millions of Rub</i> | 6m 2019 | 6m 2018 | Change yoy | 2Q 2019 | 1Q 2019 | Change qoq |
|---------------------------|---------|---------|------------|---------|---------|------------|
| Total debt                | 19,988  | 18,462  | 8%         | 19,988  | 18,933  | 6%         |
| Net debt                  | 15,628  | 13,549  | 15%        | 15,628  | 14,738  | 6%         |
| Net debt / EBITDA LTM     | 2.97    | 1.93    |            | 2.97    | 2.44    |            |

Total debt increased to Rub 20.0 billion compared with Rub 18.5 billion for 6m 2018. Net debt was Rub 15.6 billion, up by 15% yoy, compared with Rub 13.5 billion for 6m 2018. The main reason of debt increase was growth in capital expenditures due to investment programs, that were approved and initiated in 2017-2018.

Net debt to EBITDA LTM ratio increased to 2.97x compared with 1.93x last year, though within bank covenants.

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

### CREDIT RATINGS

In July 2019, Fitch Ratings affirms JSC HMS Group's Foreign- and Local-Currency Issuer Default Ratings (IDR)s of "B+", the outlook "Stable".

### LARGE CONTRACTS

In September 2019, HMS announced signature of a number of large contracts:

- Rub 2.3 billion compressor contract to engineer and procure gas transportation units for an oil & gas condensate field in Russia;
- Rub 1.0 billion contracts to engineer and procure oil & gas equipment;
- Rub 1.9 billion contracts to engineer and procure nuclear pumps and pump-based solutions;
- Eur 16 million contract to engineer and procure compressors for an oil processing plant.

In August 2019, HMS announced signing of two large compressors contracts, worth Rub 4.7 billion in total.

### DEBT REFINANCING

In September 2019, the Group refinanced a number of credits worth a total Rub 5 billion with payment due in 2020-2021, shifting repayment dates to the 2022 year. Average interest rate was decreased to 8.7% pa.

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**WEBCAST TO DISCUSS 6 MONTHS 2019 IFRS FINANCIAL RESULTS**

**Date:** Thursday, September 26, 2019

**Time:** 1.00 PM (MOSCOW) / 11.00 AM (London)

**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 9315

Russia Toll Free: 8 800 500 9863

UK Local: +44 207 194 3759

UK Toll Free: 0800 376 6183

US Local: +1 646 722 4916

US Toll Free: +1 844 286 0643

Conference ID: 66412315#

Title: HMS Group 6 months 2019 IFRS results

**Webcast meeting:**

To access the live event, click on the link:

<https://webcasts.egs.com/hmsgroup20190926>

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](mailto:ir@hms.ru)

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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.

***Press Release Information Accuracy Disclaimer***

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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.