HMS Group announces management statement and financial highlights for 2016 FY

Moscow, Russia – April 27, 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 12 months ended December 31, 2016.

Financial highlights 2016 FY:

- Revenue grew 11 percent yoy to Rub 41.6 billion
- EBITDA[1] declined 14 percent yoy to Rub 6.4 billion, with EBITDA margin down to 15.3 percent
- Operating profit decreased 20 percent yoy to Rub 3.6 billion, operating margin down to 8.7 percent
- Profit for the year totalled Rub 1.2 billion, down 32 percent yoy
- Profit for the year adj.[2] declined 26 percent yoy to Rub 1.6 billion

- Total debt increased 3 percent yoy to Rub 16.3 billion
- Net debt grew 8 percent yoy to Rub 13.3 billion
- Net debt-to-EBITDA LTM ratio amounted to 2.10x
- Return on capital employed LTM (ROCE)[3] decreased to 14.0 percent

Operational highlights 2016 FY:

- Backlog decreased 2 percent yoy to Rub 24.0 billion
- Order intake increased 23 percent yoy and amounted to Rub 40.6 billion

[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] Profit for the year adj. for impairment of goodwill and impairment of property, plant and equipment and investment property

[3] 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)).

Artem Molchanov, CEO of HMS Group, commented, that

"The year 2016 was difficult due to tough market conditions, however the company has managed to maintain its revenue growth. This improvement was supported in particular by KKM, that in turn illustrated successful integration of KKM into HMS Group. The oil & gas equipment business segment also demonstrated stable strong results. The pumps business segment fell in the first quarter because of the contracts mix and recovered just partially.

The company has improved its access to capital, both in the public debt market and in the market of bank facilities. At the end of 2016, Fitch assigned a B+ credit rating to the company. In February 2017, we successfully returned to the bond market. In 2017, the key priority of HMS' debt policy will be the optimization of interest rates, along with the extension of the debt portfolio's duration.

In the context of all its business components, including production, finance, sales, and the agreed policy of the shareholders, HMS Group has prepared a basis for further development by signing new large contracts with Russian companies, as well as by increasing its export activity. There are great opportunities available on the market, and we are confident that we possess the power and abilities to seize them.

Given the existing possibilities and with a little luck, we believe in the continual growth of HMS Group's business. Based on the first quarter preliminary results and the portfolio of orders signed, we forecast our revenue of Rub 45-48 billion and EBITDA of Rub 6.2–6.8 billion."

OPERATING REVIEW

BACKLOG & ORDER INTAKE

The Group built its backlog at Rub 24,035 million, down 2 percent yoy due to the decline in the compressors business segment.

Backlog, Rub mn	2016 FY	2015 FY	Change yoy
Industrial pumps	10,318	10,075	2%
Oil & Gas equipment	8,512	5,716	49%
Compressors	3,476	6,915	-50%
EPC	1,730	1,702	2%
Construction	719	581	24%
Project and design	1,011	1,121	-10%
Total	**24,035**	**24,409**	**-2%**

In the pumps business segment, the backlog increased 2 percent yoy to Rub 10,318 million because of inflow of contracts for recurring products. In the oil & gas equipment business segment, the backlog increased by 49 percent yoy to Rub 8,512 million due to the increase in the number of signed contracts for recurring products. The compressors' backlog declined to Rub 3,476 million because of revenue recognition of two large contracts signed in 3Q 2015 and 1Q 2016 and fewer contracts signed for recurring products. The EPC backlog increased by a minor 2 percent to Rub 1,730 million due to better performance of the construction sub-segment.

Order intake, Rub mn	2016 FY	2015 FY	Change yoy
Industrial pumps	15,999	15,399	4%
Oil & gas equipment	17,125	7,919	116%
Compressors	5,172	8,145	-36%
EPC	2,328	1,517	53%
Construction	771	-181	n/a
Project and design	1,557	1,698	-8%
Total	**40,624**	**32,979**	**23%**

Order intake[4] grew by 23 percent and equalled Rub 40,624 million based on growth of all segments except the compressors. Order intake for industrial pumps increased by 4 percent because of more orders for recurring products. The oil & gas equipment grew by 116 percent not only because of large contracts signed but also due to 72 percent growth of recurring business.

In 2016, HMS Group signed three large contracts: two contracts worth almost Rub 5.6 billion in the oil & gas business segment, and a Rub 2.8 billion contract - in the compressors segment.

Order intake for compressors decreased by 36 percent because the large contract signed in the reporting period (Rub 2.8 bn) was smaller than the large one signed in the comparative period (Rub 3.7 bn) combined with fewer recurring contracts signed. The latter was less because Kazankompressormash slowed down its activity in the area of recurring business to keep its productive capacity free as there were several large contracts under discussion. One of these discussed contracts was signed in 1Q 2017, adding Rub 3.9 billion to the compressors' order intake and backlog.

In the EPC segment, TGS (the construction sub-segment) signed a number of new contracts.

FINANCIAL REVIEW

GROUP PERFORMANCE

Group revenue was up by 11 percent yoy and reached a new high of Rub 41,582 million, growing for the third year in a row.

In terms of revenue mix, this growth was supported the most by recurring products. In 2016, recurring business increased by 15 percent and as a share of revenue amounted to 75 percent vs. 73 percent last year. Here, machine-building recurring products[5] grew by 18 percent yoy. Revenue from large contracts also grew, but at a slower pace, by only 3 percent yoy.

In terms of segments, the compressors business segment was the driver of the revenue increase because of large contracts.

[4] According to management accounts
[5] Machine-building products include standard pumps, oil & gas equipment, and compressors, and exclude EPC (GTNG and TGS)

Financial highlights, Rub mn	2016 FY	2015 FY	Change yoy
Revenue	41,582	37,296	11%
EBITDA	6,369	7,446	-14%
EBITDA margin	15.3%	20.0%	

EBITDA margin decreased to 15.3 percent from 20.0 percent in the comparative period due to two main factors:

- A decrease in the profitability of the pumps business segment because of the revenue mix with a larger share of recurring business, which has lower margins compared to large projects;
- An increase in the share of large contracts in the compressors segment, that still have low margins.

EBITDA declined by 14 percent yoy to Rub 6,369 million mainly because of the decline in the pumps business segment due to smaller share of large contracts, especially in 1Q 2016. The pumps' EBITDA was almost completely generated by recurring business. In the oil & gas business segment, EBITDA generated by large contracts declined, and recurring business, in contrast, grew significantly, due to a higher profitability of innovative projects, among other things. Also, there was a high basis of comparison for the oil & gas equipment segment last year. The compressors segment increased its share in the company's EBITDA as well as in the large contracts' portfolio.

Cost of sales increased by 19 percent yoy to Rub 30,799 million compared with Rub 25,783 million. This growth outpaced revenue (+11% yoy) and was driven by materials and components (+22% yoy). The main reason was a change in the prevailing type of contracts, which became more material-intensive in particular because of a specific nature of KKM's contracts. Labour costs stayed unchanged, and as a share of revenue even decreased to 11 percent from 12 percent.

Cost of sales, Rub mn	2016 FY	2015 FY	Change yoy	Share of 2016 FY revenue	Share of 2015 FY revenue
Cost of sales	**30,799**	**25,783**	**19%**	**74.1%**	**69.1%**
Materials and components	20,172	16,520	22%	48.5%	44.3%
Labour costs	4,627	4,607	0%	11.1%	12.4%
Construction & design and engineering services of subcontractors	2,173	1,135	91%	5.2%	3.0%
Depreciation and amortization	1,340	1,281	5%	3.2%	3.4%
Others	2,487	2,239	11%	6.0%	6.0%

Operating expenses excl. Cost of sales grew by 3 percent yoy to Rub 6,771 million, whilst as a percentage of revenue decreased to 16.3 percent.

Rub mn	2016 FY	2015 FY	Change yoy	Share of 2016 FY revenue	Share of 2015 FY revenue
Distribution and transportation	1,700	1,378	23%	4.1%	3.7%
General and administrative	4,523	4,603	-2%	10.9%	12.3%
Other operating expenses	548	624	-12%	1.3%	1.7%
Operating expenses ex. Cost of sales	**6,771**	**6,605**	**3%**	**16.3%**	**17.7%**
Finance costs	1,905	2,087	-9%	4.6%	5.6%

Distribution and transportation expenses increased by 23 percent yoy and amounted to Rub 1,700 million. As a percentage of revenue, they also grew, to 4.1 percent from 3.7 percent. Major contribution to the increase was made by transportation expenses and other expenses related to contracts' execution. Here, transportation expenses grew due to a growth of the number of heavy and oversized products dispatched as well as more deliveries to remote northern regions of Russia.

General and administrative expenses declined by 2 percent to Rub 4,523 million.

SG&A expenses[6] grew by 4 percent yoy to Rub 6,223 million, with lower share in revenue (15% in 2016 vs 16% in 2015). The growth of SG&A expenses was mainly because of an increase in transportation costs.

Operating profit declined by 20 percent to Rub 3,624 million compared with Rub 4,525 million because of the lower EBITDA. Operating margin decreased to 8.7 percent (2015: 12.1%).

Finance costs declined by 9 percent yoy to Rub 1,905 million. Foreign exchange revaluation gain more than compensated for the growth of interest expenses of 11 percent yoy.

As of January 1, 2017, average interest rate grew to 12.2 percent (01.01.2016: 11.4 percent), where Ruble-denominated only, in contrast, decreased to 12.4 percent (01.01.2016: 12.5 percent). Within a year, interest rate increased during the first 9 months. The reasons for the growth were the same as in the previous reporting period: a Euro-denominated loan was refinanced with a Ruble-denominated one, "old" before-the-crisis loans at low interest rates were replaced with more expensive ones. But since 4Q 2016, the average interest rate began to decrease.

Profit for the year decreased by 32 percent yoy to Rub 1,198 million from Rub 1,764 million, due to the lower operating profit. And profit for the year adj. equaled to Rub 1,587 million, down 26 percent from Rub 2,148 million.

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 7 percent yoy to Rub 16,724 million. EBITDA decreased by 33 percent yoy to Rub 2,755 million. As a result, EBITDA margin decreased to 16.5 percent.

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

The main reason for the lower financials was a decline in the share of large high-margin contracts in revenue and EBITDA. Here, EBITDA was almost completely generated by recurring business with lower margin.

Industrial pumps, Rub mn	2016 FY	2015 FY	Change yoy
Revenue	16,724	17,925	-7%
EBITDA	2,755	4,098	-33%
EBITDA margin	16.5%	22.9%	

Oil & Gas equipment Business Segment[ii]

Revenue stayed almost flat at Rub 15,144 million and EBITDA was down by 7 percent yoy to Rub 3,032 million. From the perspective of recurring business, the oil & gas equipment segment continued to deliver strong results.

There was a twofold decrease in revenue from large contracts in the oil & gas business segment, but recurring business almost substituted them. EBITDA generated by large contracts declined. Recurring business, in contrast, showed significant growth in EBITDA terms. Also, the oil & gas equipment segment last year demonstrated a high basis of comparison.

EBITDA margin declined to 20.0 percent because of a larger share of recurring business. But, margins for recurring oil & gas equipment are higher than in the previous periods due to a higher level of innovation and added value of new equipment put into operation.

Oil & Gas equipment, Rub mn	2016 FY	2015 FY	Change yoy
Revenue	15,144	15,218	0%
EBITDA	3,032	3,246	-7%
EBITDA margin	20.0%	21.3%	

Compressors Business Segment[iii]

Revenue grew by 108 percent to Rub 8,700 million, and EBITDA increased to Rub 619 million mainly due to growing portfolio of large contracts. EBITDA margin was almost the same 7.1 percent vs. 7.5 percent in the compared period.

Compressors, Rub mn	2016 FY	2015 FY	Change yoy
Revenue	8,700	4,183	108%
EBITDA	619	315	96%
EBITDA margin	7.1%	7.5%	

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

The EPC business segment continued its negative dynamics. Revenue was down to Rub 2,297 million from Rub 2,617million. EBITDA dropped to minus Rub 75 million from plus Rub 180 million due to poor performance of the both sub-segments: project & design and construction. These weak results are a direct consequence of the shrinking contracts portfolio because of tougher pricing of oil & gas majors and stronger competition in the stagnating market for a small number of orders. As a result, EBITDA margin turned negative 3.2 percent from positive 6.9 percent last year.

EPC, Rub mn	2016 FY	2015 FY	Change yoy
Revenue EPC	2,297	2,617	-12%
EBITDA EPC	-75	180	-142%
EBITDA margin EPC	-3.2%	6.9%	

Cash flow performance, Debt and Liquidity position

Working capital[7] increased by 13 percent yoy to Rub 9,962 million because of the continuing execution of large contracts. But as a share of revenue it stayed stable at 24 percent.

Rub mn	2016 FY	2015 FY	Change yoy
Working capital	9,962	8,813	13%
Working capital / Revenue LTM	24%	24%	
Capital expenditures	1,701	1,457	17%

Despite the increase in working capital, HMS Group generated net operating cash inflow of Rub 1,808 million.

HMS' capex grew 17 percent. This growth affected Net cash used in investing activities, the net outflow of which increased to Rub 1.8 billion (2015: Rub 1.4 billion).

The company continues execution of its Localization project[8] where it invested Rub 665 million during 2016 year. Excluding these capital expenditures, HMS raised its maintenance capex by 26 percent yoy to Rub 1.0 billion. In 2014-2015, the company reduced its capital expenditures due to the economic crisis in Russia and imposed sanctions, and today is increasing them to a "normal" level required for further development.

Increased investment activities decreased free cash flow[9], which amounted to Rub 20 million.

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[7] Working capital is calculated as Inventories + Trade and other receivables (excluding Short-term loans issued, Bank deposits and Promissory notes receivable) + Current income tax receivable - Trade and other payables - Short-term provisions for liabilities and charges - Current income tax payable - Other taxes payable - Dividends payable (Rub 393 mn) which emerged because of dividends announcement in Dec 2016 and their payment in Jan 2017

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

[9] 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.

Cash flow performance, Rub mn	2016 FY	2015 FY	Change yoy
Net cash from operating activities	1,808	1,881	-4%
Net cash used in investing activities	-1,788	-1,431	25%
Free cash flow (FCF)	**20**	**451**	**-95%**
Net cash used in financing activities	-394	-1,594	-75%
Cash & cash equivalents	2,990	3,496	-14%

Cash & cash equivalents were down to Rub 3.0 billion vs. Rub 3.5 billion last year.

Net cash (used in)/from financing activities increased by Rub 1.2 billion.

Total debt increased by 3 percent yoy to Rub 16,336 million. Net debt grew by 8 percent yoy to Rub 13,347 million because financing cash flows (buy back of issued shares, dividends paid and purchase of a stake of Apollo), that totaled almost Rub 1.1 billion, weren't covered by free cash flow of Rub 20 million. Larger Net debt and lower EBITDA resulted in the higher 2.10x Net debt-to-EBITDA LTM ratio.

In December 2015, the Group exercised its right under the option agreement to acquire the remaining 25% share in Apollo Goessnitz GmbH. Share purchase transaction was legally completed in February 2016, and, as a result of this transaction, the Group increased its ownership interest in Apollo Goessnitz GmbH from 75% to 100%.

Debt, Rub mn	2016 FY	2015 FY	Change yoy
Total debt	16,336	15,884	3%
Long-term debt	*12,770*	*11,218*	*14%*
Short-term debt	*3,566*	*4,667*	*-24%*
Net debt	13,347	12,388	8%
Net debt / EBITDA LTM	2.10	1.66	

Credit rating

Fitch Ratings assigns JSC “HMS Group” (legal entity, the holder of HMS Group's assets, located in Russia) a first time Foreign and Local Currency Issuer Default Rating (IDR) of “B+”, the outlook “Stable”.

SIGNIFICANT EVENTS & FINANCIAL MANAGEMENT AFTER THE REPORTING DATE

In March 2017, HMS Group signed two large contracts: Rub 3.9 billion for delivery of compressor equipment and Rub 10.2 billion for delivery of oil & gas equipment.

Financial management
In February 2017, HMS Group successfully placed a Rub 3.0 billion exchange bonds issue of JSC “Hydromashservice”, one of the main operational subsidiary of the Group. The company came back to the public debt capital markets with Rub 3 billion 10.75 per cent coupon bonds with a 3-year put option and 10-year maturity. It was the first HMS Group debt issuance since 2013.

The same month, HMS signed a credit agreement with UniCredit Bank totaling Rub 800 million. The 3-year loan facility with maturity in 2020 was utilized for general corporate needs, including refinancing at lower interest rates its previously signed credit lines.

As of mid-April, 2017, average interest rate of Ruble-denominated loans decreased to 11.2 percent and to 11.0 percent for all loans, including FX-denominated.

In April 2017, HMS did the following, among other things:

- Lowered the interest rates of one credit line without its refinancing, and
- Refinanced Rub 1.86 billion at a lower interest rate.

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 Giprotyumenneftegaz PJSC and Institute Rostovskiy Vodokanalproekt OJSC since 1 January 2017 will be 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 will be renamed "Construction" segment, and "Oil and gas equipment" segment will be renamed "Oil and gas equipment and projects" segment. Because such changes occurred after the period end, they have not been reflected in the segment information herein, but will be reflected for the first time in the reporting period for 2017.

HMS GDRS

During the period from December 1, 2016 up to and including April 26, 2017, HMS Group repurchased 37,693 of its global depositary receipts ("GDRs"). The share repurchases are part of the Company's buy-back program. In total, HMS Group purchased 903,562 GDRs (3.86 percent of its issued share capital).

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WEBCAST TO DISCUSS 2016 FY IFRS FINANCIAL RESULTS

Thursday, 27 APRIL 2017
3.00 PM (MOSCOW) / 1.00 PM (London) / 2.00 PM (CET) / 8.00 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:

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Conference ID:	2865596
Title:	HMS Group 2016 FY IFRS results

Webcast meeting:
To access the live event, click on the link:

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

For more information, please contact:
Investor Relations, email: 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 depositary receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

[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.