HMS Group full year 2013 IFRS financial results

Moscow, Russia – April 29, 2014 – HMS Group plc (the "Group") (LSE: HMSG), the leading pump and compressor manufacturer and provider of flow control solutions and related services in Russia and the CIS, today announces its audited IFRS financial results for the twelve months ended December 31, 2013.

In December 2013, HMS Group sold 67.3% shares in Trest Sibkomplektmontazhnaladka (SKMN), having recognised a loss from disposal of Rub 746 million. The performance of SKMN represented a separate major line of business within EPC business segment. The Group's performance for 2013 excludes the results of SKMN, unless otherwise stated.

2013 HIGHLIGHTS

(Figures in brackets are for the twelve months ended December 31, 2012)

- Backlog increased by 18% year-on-year to Rub 22.3 billion (Rub 19.0 billion) and order intake was up 5% year-on-year to Rub 34.8 billion (Rub 33.1 billion) driven by a steady demand for pumps, compressors and oil & gas equipment

- Revenue increased by 3% year-on-year to Rub 32.4 billion (Rub 31.5 billion)

- EBITDA[1] totaled Rub 5.2 billion, down 14% year-on-year (Rub 6.1 billion); EBITDA margin was 16.2% compared to 19.4% in the previous year

- Operating profit was Rub 4.2 billion, almost flat year-on-year; operating margin stood at 13%

- Profit for the period from continuing operations reached Rub 2.1 billion, down 12% year-on-year; earnings per share (EPS) were Rub 16.79 (Rub 17.99)

- Profit for the period including the results of discontinued operations decreased from Rub 2.3 billion to Rub 1.15 billion; earnings per share (EPS) were Rub 8.99 (Rub 17.91)

- Total debt contracted by 5% year-on-year to Rub 12.7 billion (Rub 13.4 billion)

- Net debt decreased by 8% year-on-year to Rub 11.1 billion (Rub 12.1 billion), resulting in Net debt-to-EBITDA ratio at 2.1x (2.0x)

- Return on capital employed (ROCE)[2] was 13.9% versus 18.7% in the previous year

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[1] EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortization, impairment of assets, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, defined benefits scheme expenses, warranty provisions, provision for legal claims, provision for VAT and other taxes receivable, other provisions, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects of non-recurring income and expenses on the results of the operating segments.

[2] ROCE is calculated as EBIT divided by average total debt plus average equity

Commenting on the results, Artem Molchanov, Managing Director (CEO) of HMS Group, said,

"The year 2013 was a challenging year for HMS Group. The slowdown of the Russian economy and investment activity led to delays in large projects, targeted by the Company, and as a result we were mainly involved in supply of less margin standard products. Moreover, last year, we developed primarily organically, without major M&A transactions, which previously supported the Group's growth.

Despite these setbacks, we were able to demonstrate a sound performance in 2013. The achieved results proved the sustainability of our business. A stable inflow of small and medium sized orders helped us to build a solid Rub 22.3 billion backlog. Our revenue reached Rub 32.4 billion. The weaker margins had a negative impact on our profitability. In 2013, the Group's EBITDA contracted by 14%.

Except for construction sub-segment, all our business segments performed in line with the management's expectations. Weak results of the construction sub-segment were the direct consequence of extremely negative trends in oil and gas construction market. In 2013, we made a decision to dispose our loss-making construction business, in line with the Group's strategy to withdraw from construction business. We sold one of our construction subsidiaries SKMN and intend to either sell or close-down the other one.

At the same time, we are pleased with the results achieved by our compressor division last year. Since joining HMS Group in mid-2012, Kazankompressormash (KKM) noticeably improved its portfolio of orders, which boosted the segment's revenue and EBITDA. Moreover, we further strengthened our capabilities in the compressor business through acquisition of NIITurbokompressor (NIITK).

Despite the mixed business climate and uncertainties relating to tenders, we believe that HMS will continue to benefit in the long term. Overall, we are confident that our strong fundamentals, proven strategy and attractive industry prospects will position HMS Group to deliver future development".

OPERATING REVIEW

The Group's backlog as of December 31, 2013 amounted to Rub 22.3 billion, up 18% year-on-year, caused mainly by the growth in the oil & gas equipment.

The backlog of orders in all business segments, excluding industrial pumps, demonstrated positive dynamics in the reporting period. In the oil & gas equipment business segment, HMS Group more than doubled its backlog, successfully replacing the Vankor contract with a new promising Rub 5.7 billion contract, and the segment's backlog achieved Rub 8 billion as of 31 December 2013.

In the compressors business segment, the backlog grew by 17% to Rub 2.3 billion supported by a stable inflow of orders for compressors. Meanwhile, the core industrial pumps business segment showed negative dynamics in 2013: its backlog decreased by a quarter to Rub 8.8 billion as a result of delay in launch of new large projects by Russian oil and gas majors due to uncertainties in the economy. In the EPC business segment, HMS Group built up a solid Rub 3.3 billion backlog in the reporting period, up 72% year-on-year. Both sub-segments of the division – project and design (EP) and construction (C) – grew by 77% and 65% year-on-year respectively.

The order intake[3] in 2013 increased by 5% year-on-year to Rub 34.8 billion. The decrease in orders for industrial pumps was more than compensated by the growth of orders in all other business segments.

GROUP PERFORMANCE

Stable performance of industrial pumps and compressors business segments was the main driver behind the Group's performance in 2013. The Group's revenue grew by 3% year-on-year to Rub 32,358 million. EBITDA declined 14% year-on-year to Rub 5,238 million, reflecting the lack of high-margin projects and poor performance of construction sub-segment. As a result, EBITDA margin for 12 months 2013 stood at 16.2%.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue from continuing operations	32,358	31,460	3%
EBITDA	5,238	6,101	(14)%
EBITDA margin	16.2%	19.4%	(320) bps

The Group's cost of sales, which traditionally accounts for about 70% of total revenue, grew by 7% year-on-year from Rub 21,627 million to Rub 23,238 million driven by a full year consolidation of KKM and Apollo in 2013 compared to their partial consolidation in 2012.

Rub million	**2013**	***% of revenue***	**2012**	***% of revenue***	**Change y-o-y**
Total cost of sales	**23,238**	***72%***	**21,627**	***69%***	**7%**
Supplies and raw materials	10,567	*33%*	10,935	*35%*	(3)%
Labour costs	5,374	*17%*	5,100	*16%*	5%
Cost of goods sold	2,799	*9%*	2,222	*7%*	26%
Other expenses	4,498	*14%*	3,370	*11%*	33%

The key components of cost of sales – supplies and raw materials combined with cost of goods sold – accounted for 41% in 2013, almost the same share as in 2012.

Labour costs grew 5% year-on-year of Rub 5,374 million, or 17% of revenue.

[3] Under management accounts

Distribution and transportation expenses in absolute terms were up 11% year-on-year, and achieved Rub 1,377 million in 2013. As a percentage of revenue, they comprised 4% in both periods.

General and administrative expenses totaled to Rub 3,970 million for 2013, up 5% year-on-year, but remained flat year-on-year at 12% as a percentage of revenue.

The Group's operating profit was almost flat year-on-year and totaled Rub 4,179 million in 2013. Operating margin stood at 13% in the reporting period. In 2013, the Group posted Rub 439 million impairment of the construction business and Rub 955 million extra gain from the bargain M&A, which contributed Rub 516 million to HMS' operating profit.

Interest expenses increased by 25% to Rub 1,522 million compared to Rub 1,220 million in 2012 and comprised 4.7% of revenue versus 3.9% in the previous year.

In 2013, the Group accrued an income tax expense of Rub 524 million. Effective tax rate decreased from 25% to 20% in 2013 due to non-taxable effects of the impairment of the construction business and the gain from the bargain M&A deals.

The Group's profit for the period including the results of discontinued operations decreased twofold to Rub 1,156 million mainly because of HMS' lower operating profit, higher finance costs and the loss from SKMN.

SEGMENT PERFORMANCE

Industrial pumps business segment

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 solution as well as pumps manufactured to standard specifications. It also provides aftermarket maintenance and repair services and other support for its products.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue	17,595	17,066	3%
EBITDA	3,816	4,279	(11)%
EBITDA margin	21.7%	25.1%	(338) bps

The industrial pumps business segment's revenue increased by 3% year-on-year to Rub 17,595 million from Rub 17,066 million in 2012, while EBITDA decreased by 11% year-on-year to Rub 3,816 million. EBITDA margin stood at healthy 21.7%.

The segment's results in the reporting period were supported by the ESPO (+ Rub 1,204 million), Zapolyarye-Purpe (+ Rub 501 million) and Turkmenia (+ Rub 2,303 million) projects. Excluding these projects, industrial pumps demonstrated a 12% growth both in revenue and EBITDA year-on-year backed on a stable inflow of orders for standard and customized pumps.

<u>Oil & gas equipment business segment</u>

The oil & gas equipment business segment manufactures and installs 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.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue	7,743	7,828	(1)%
EBITDA	883	1,397	(37)%
EBITDA margin	11.4%	17.8%	(644) bps

Revenue in the oil & gas equipment business segment demonstrated a minor decrease by 1% year-on-year in 2013 to Rub 7,743 million, compared to Rub 7,828 million in 2012. The segment's EBITDA dropped by 37% year-on-year to Rub 883 million in the reporting period versus Rub 1,397 million in 2012. Last year, the segment implemented a lucrative Vankor project, which contributed Rub 2,709 million to its revenue. Excluding Vankor, the segment's revenue grew by 51% year-on-year. In 2013, the oil & gas equipment business segment served exclusively small and medium-sized orders for standard tanks and vessels and measuring equipment. Achieved EBITDA margin at 11.4% in 2013 is an average margin for that type of business activity.

<u>Compressors business segment</u>

The compressors business segment designs, 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, petrochemical, 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.

Rub million	**2013**	**2012***	**Change y-o-y**
Revenue	4,207	3,066	37%
EBITDA	572	266	115%
EBITDA margin	13.6%	8.7%	490 bps

**including the results of KKM for the full 2012 year*

KKM was the key contributor to the segment's results as an impact of project and design center NIITK, bought in 2Q 2013, was immaterial. The contracts, signed by KKM since its joining HMS Group, boosted the compressors segment's revenue and EBITDA, which grew by 37% and 115% year-on-year respectively. In 2013, EBITDA margin achieved 13.6%.

Integration of KKM is far from completion. According to the integration plan, a number of issues are to be addressed to reach sustainability and further growth of the segment.

<u>Engineering, procurement and construction (EPC) business segment</u>

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 and gas upstream and midstream and water utilities sectors.

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue EPC	2,808	5,140	(45)%
Project and Design	2,209	2,204	0%
Construction	599	2,936	(80)%
EBITDA EPC	(204)	341	(160)%
Project and Design	267	125	114%
Construction	(472)	216	(318)%
EBITDA margin EPC	(7.3)%	6.6%	(1,392) bps
Project and Design	12.1%	5.7%	644 bps
Construction	(78.8)%	7.4%	(8,621) bps

Discontinued operations (results of SKMN)

Rub million	**2013**	**2012**	**Change y-o-y**
Revenue	2,647	2,545	(45)%
EBITDA	(43)	112	(132)%
EBITDA margin	(2.6)%	4.4%	(659) bps

The EPC business segment delivered weak results in 2013 with revenue declining almost twofold to Rub 2,808 million and EBITDA turning negative to Rub -204 million.

The segment's poor performance was attributable to the construction sub-segment, which generated negative Rub -472 million EBITDA in the reporting period. Revenue in the construction sub-segment declined from Rub 2,936 to Rub 599 million. Project and design sub-segment's profitability growth was not able to offset the weak performance of the construction business in 2013. And as a result, the EPC segment's EBITDA margin turned at negative 7.3%.

FINANCIAL REVIEW

CASH FLOWS PERFORMANCE*

Rub million	2013	2012	Change y-o-y
Net cash from operating activities	4,728	3,322	42%
Net cash used in investing activities	(2,420)	(8,310)	(71)%
Net cash (used in)/from financing activities	(2,072)	4,864	(143)%
Free cash flow (FCF)	2,308	(4 988)	(146)%

**from continuing operations*

Operating cash flow for 12 months 2013 grew by 42% from Rub 3,322 million to Rub 4,728 million.

Working capital totaled Rub 5,198 million, down 23% year-on-year to and comprised 16% of total revenue versus 21% for the previous period. Key factors beyond working capital decline were optimisation of payables and receivables; payments received under executed large contracts; advance payments under new contracts.

Absence of large M&A deals substantially decreased outflow from investing activities, which equaled to Rub -2,420 million (-71% year-on-year). Capital expenditures were up 7% to Rub 1,553 million for 12 months 2013.

Rub 2,072 million outflow of net cash used in financing activity was mostly attributable to repayments of borrowings and dividend payments.

Free cash flow turned positive and totaled Rub 2,308 million for 12 months 2013.

DEBT AND LIQUIDITY POSITION

Rub million	2013	2012	Change y-o-y
Total debt	12,687	13,410	(5)%
Long-term debt	11,522	11,220	3%
Short-term debt	1,165	2,191	(47)%
Cash and cash equivalents at the end of the period	1,584	1,346	18%
Net Debt	11,102	12,064	(8)%
Net Debt/EBITDA	2.12	1.98	

Net Debt and Net Debt/EBITDA may differ from the calculations of numbers as a result of rounding

HMS Group significantly reduced its total debt at 2013-end to Rub 12,687 million from Rub 16,202 million on 1 October 2013. Debt reduction was a result of managerial activities on working capital optimisation, including more active work with suppliers and decrease in inventories, and large payments received on new and some executing contracts. By the end of the year, over 90% of the total debt was represented by long-term facilities.

Net debt decreased to Rub 11,102 million, while Net debt-to-EBITDA ratio amounted to 2.1x. Under a new Net debt-to-EBITDA bank maintenance covenant with a 4.5x threshold, it implies ample headroom for the next 12 months.

As of 1 January 2014, an average interest rate was 9.5% for all loans, including FX-denominated.

Solid liquidity position with Rub 1.6 billion in cash covered HMS's short-term debt of Rub 1.2 billion, with committed unused credit lines of Rub 3 billion.

KEY DEVELOPMENTS IN 2013

I. Operating activities

Projects on track

In 2013, HMS Group continued to participate in another stage of one of the landmark projects in the Russian oil sector – construction of the East Siberia – Pacific Ocean (ESPO) pipeline. As part of the ESPO-1 Expansion contract we delivered 12 trunk pumps and auxiliary equipment for 3 pump stations to the customer's site. In 2014, the scope of work under contract includes the installation and supervision of the equipment.

HMS Group made good progress in the execution of its key project in the water utility sector comprising delivery of three customized water pump stations for irrigation to Turkmenistan. We completed the design stage and delivered the largest portion of the contracted equipment which will be followed by the installation stage.

In the power generation sector, we completed the implementation of approximately 50% of the contracts for design and delivery of equipment for reactor blocks of Leningradskaya NPP and Novovoronezhskaya NPP.

In 2013, we produced and delivered a compressor station for the project for the Usinsky gas refinery modernisation project. The compressor station, with a capacity of 270 million m^3 pa, was designed by NIITurbokompressor (NIITK) and produced by Kazankompressormash (KKM) and was tailored to specific requirements of the customer.

New projects

In July 2013, HMS signed a contract for the production and delivery of 8 trunk pipeline pump units for the Zapolyarye – Purpe Oil Pipeline totaling Rub 1.5 billion in value. The project is designed to bring crude oil produced in the northern areas of the Yamalo-Nenetsk and Krasnoyarsk regions to markets through the ESPO pipeline. The designed capacity of the 500 km pipeline of up to 45 million tonnes pa, is expected to be reached by the end of 2016. Under this contract with

Transneft, in the reporting period HMS Group manufactured equipment for testing, which is scheduled for 2014. Equipment delivery will start upon the completion of testing.

In August 2013, HMS Group signed a contract for the manufacturing and delivery of a compressor station worth Rub 943 million. Under the contract, we will deliver the booster compressor station to a customer's site. The unit, based on a gas-turbine engine and manufactured by Kazankompressormash (KKM), will be installed at a petrochemical complex in the South of Russia, as a part of the client's modernisation programme of the existing production facilities in order to ensure the maximisation of gas processing at the plant. During the second part of 2013, we developed the project documentation and signed contracts with suppliers of key components.

In December 2013, HMS Group signed a Rub 5.7 billion contract to supply an integrated solution for a major Siberian gas field. During next 2 years, we will design, manufacture, deliver, supervise and test complex technological facility, including compressors, pumps, tanks, vessels, filters, coolers and other components.

II. Modernisation

HMS Group continuously updates its manufacturing facilities and seeks to implement the latest technologies to produce modern equipment meeting its clients' requirements. In 2013, Rub 1.5 billion was invested by the Group's entities as part of their modernisation programmes. The top priorities for the Group's investment activities included product quality improvement, production of new types of equipment and an increase in its technological capability at key enterprises.

Industrial pumps

Nasosenergomash (NEM) put into operation a new casting shop with total capacity of up to 4 thousand tonnes of casting products per year. The large-scale modernisation programme targets an increase in pumps output to cover growing market demand as well as production quality and specific technical improvements. The updated shop is designed to produce a steel casting up to 2 tonnes and an iron casting up to 3 tonnes. A new technological line with a continuous spiral mixer fully eliminates human intervention in the production process, ensuring a sustainable level of high quality casting shapes produced at the shop.

In 2013, we updated all technological production lines for oil processing pumps at our *Bobruisk Mashine Building Plant (BMBP)* and improved the manufacturing buildings at *Promburvod (PBV).* At *HMS Pumps* we started the implementation of a technological re-equipment of a casting shop and the construction of a new pump testing stand.

Oil & gas equipment

In 2013, *Sibneftemash* launched a new production site for separating equipment production, which significantly improves the technological capacity of the enterprise. The shop was equipped with modern facilities including a portal plasma- and gas-cutting device to cut sheets 120 mm thick; equipment to roll sheets up to 40 mm thick and 3 m wide; a high-tech welding column for the automatic welding of tanks and vessels; and a special stand to test durability and density of new products. Currently, Sibneftemash can produce gas, oil and gas, and flare separators. We have already signed several contracts for production of this equipment. At full capacity, the new shop is expected to increase the volume of tanks and vessels produced by Sibneftemash by about 37%.

Compressors

At *Kazankompressormash (KKM)* we modernized the centrifugal complex used for processing compressor bodies and covers. The new equipment will increase the output from 20 to 30 compressor bodies per year and simultaneously decrease production time. We also developed a plan for further modernisation of the enterprise to be implemented in 2014-2015, which includes an upgrade of the casting shop, a transfer to cold fix mixture technology and the installation of modern controls and measuring equipment.

III. R&D activities

HMS Group continuously strengthens its research and development capabilities in order to reach sustainable organic growth. Aspired by the Company`s strategy aimed at establishing the best R&D in Russia and CIS countries, HMS Group engineers continued to design and provide to its customers innovative solutions meeting any given specific requirements.

Last year was marked with further developments in the field of Delium pumps product line elaboration. These next generation double suction pumps have wide operational capacities and can be used in almost all industries. These highly efficient pumps are characterised by excellent absorbing capacity and water proof design that increases efficiency and reduces wear and sputtering.

HMS Group continues to strengthen its expertise in pumps designed according to the international standards. In 2013, our engineers introduced a new line of up-to-date pumping equipment. For example, a new high-pressure BB5 pump designed and manufactured according to API610 with new high speed hydraulics. This new product has a complete skid with pump motor turbo gear, pressure lubrication system and a new configuration of hydraulic components. It can be used at the most critical stages of technological process in various industries, including petrochemical, chemical, oil upstream and thermal power.

New vertical high-pressure pump VS6 pump, especially designed for offshore application according to API610 and NORSOK standards, was successfully tested including noise hood and sound intensity measurement. The pump is manufactured in super duplex stainless steel with new inlet-outlet casing form.

Among other innovative solutions was the introduction of a new vertical single stage OH3 pump in titanium, especially designed for offshore according to API610 and NORSOK standards.

Following the ever increasing customer demand for the measuring equipment and in order to enhance the expertise in the development of this type of equipment HMS Group in association with Tyumen State University has developed a new metrological stand, which will allow the testing and metrological calibration of up-to-date multiphase measuring units.

One of the key innovations of HMS Group in this field is the Mera MR measuring unit with NetOil&Gas (NOG) mass flow meter, which was tested successfully throughout the last year on a number of oil and gas fields developed by leading Russian oil&gas companies. The equipment features an automated mobile measuring unit used to measure the mass flow rate of oil and gas taking into account the water cut without a separator. The first contract for the delivery of this measuring unit was signed in December 2013.

In 2013, HMS Group has successfully accomplished a milestone acquisition in terms of the reinforcement and promotion of its compressor equipment business. The existing innovative capacity of our R&D is complemented by the strong expertise of one of the leading Russian institutes focused on compressor technologies- NIITurbokompressor (NIITK).

Thus, a number of new solutions were introduced, such as the new compressor unit based on a new 25 MW gas turbine driver which is level up from conventional 16 MW and a compressor stations of low and high pressure that were developed based on a new type of air pumps.

HMS Group owned portfolio of more than 260 patents reflects our R&D commitment. In 2013 HMS Group filed 32 new patents increasing the overall number by 20%. This patent portfolio is primarily focused on pumping and compressor equipment, including borehole pump units, double suction pumps, centrifugal and screw compressors, as well as measuring equipment, including units for oil production rate measurement and various preliminary filters etc.

IV. M&A development

HMS Group completed two acquisitions in 2013:

- NIITurbokompressor (NIITK), the leading Russian project and design institute, focused on compressor technologies and located in Kazan. HMS Group acquired 95.4% of voting shares. Acquisition of NIITK is a part of the Group's strategy aimed at enhancing competencies in compressor business.

- Noyabrskneftegazproekt (NNGP), rendering design and engineering services for oil and gas companies. The purchase (Rub 9.5 million) improved the Group's position on the Russian oil and gas market and strengthened relationship with one of its key clients.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Litigation against the Company

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 against a number of defendants, including the Company, certain of its shareholders and directors, and Bank of New York (Nominees) Limited. Among other things, the Order froze property of most of the defendants, including the Company, but excluding Bank of New York (Nominees) Limited and two other defendants, for an amount up to EUR 400 million.

On 16 April 2014, following prior written and oral submissions against the Order by the Company and several other defendants, the District Court of Nicosia discharged the Order in full, including in respect of the Company and its shareholders and directors.

Credit rating

In March 2014, Standard and Poor's Rating Services affirmed the Group's "B" long-term credit rating and "ruA" Russia national scale rating and removed the rating from CreditWatch with negative implications, where the agency placed HMS Group in December 2013. The outlook is stable.

Dividends

On 24 April 2014, the Board of Directors recommended a payment of 2013 dividend of Rub 3.41 per ordinary share, amounting to a total dividend of Rub 400 million.