HMS Group announces interim management statement and financial highlights for 9 months ended September 30, 2014

Moscow, Russia – December 16, 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 interim management statement and financial highlights for 9 months ended September 30, 2014. The financial data are based on management accounts only and are not reviewed by external auditors.

9 months 2014 HIGHLIGHTS:

- Backlog increased by 66% year-on-year to Rub 27,442 million, while order intake grew by 21% year-on-year to Rub 24,514 million for 9 months 2014

- Revenue decreased by 9% year-on-year to Rub 21,233 million, showing decline throughout Industrial pumps and Compressors business segments. Revenue taken for the last twelve months (LTM) decreased slightly, by 2% year-on-year

- EBITDA[1] totaled Rub 3,046 million, down 17% year-on-year; EBITDA margin was 14.3% compared to 15.7% last year. EBITDA for 9 months 2014 taken for the last twelve months (LTM) declined by 19% year-on-year

- Operating profit reached Rub 1,713 million, down 47% year-on-year; operating margin stood at 8.1%

- Profit for the period amounted to Rub 257 million for 9 months 2014, compared to Rub 777 million for 9 months 2013; earnings per share (EPS) from continuing operations was Rub 2.34

- Net debt slipped down by 11% year-on-year to Rub 13,562 million, resulting in Net debt-to-EBITDA (LTM) ratio at 2.9x

- Return on capital employed (ROCE) LTM[2] was 10.4%

[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 (LTM) divided by average total debt plus average equity

Commenting on the financial results in respect of 9 months 2014, Artem Molchanov, Managing Director (CEO) of HMS Group, stated:

"We planned that the 2nd half of 2014 should be significantly better than the 1st – and results of the 3rd quarter confirmed our previous statements.
Both quarters - the 3rd and the 2nd - were profitable and, as a result, we have exceeded the loss of the 1st quarter and net profit margin for 9 months 2014 turned positive 1.2% with the 3rd quarter net profit margin equaling 5.9%.
However, weak start of 2014 had a major impact on the Group's 9 months results and our revenue and EBITDA declined by 9% and 17% correspondingly.

We managed to build a solid Rub 27 billion backlog that is 1.5 times larger than last year, which secures the Group's future revenue. Our order intake also grew substantially thanks to a new sizable LH-project[3], which we signed in the 2nd quarter of 2014."

OPERATING REVIEW

As of September 30, 2014, the Group built its high backlog at Rub 27,442 million, up 66% year-on-year. This growth was mostly attributable to signed large contracts in the oil & gas equipment business.

The backlog in the industrial pumps business segment decreased by 18% year-on-year to Rub 8,855 million. The backlog of the oil & gas equipment business segment showed an impressive growth due to the abovementioned large contracts – more than 10 times versus 9 months 2013 results. The backlog in the compressors business segment remains stable (+3% year-on-year). The EPC business segment showed a 4% decline year-on-year due to delay of some targeted projects in project and design sub segment, but had been almost compensated by several contracts in construction sub segment.

The order intake[4] increased by 21% year-on-year up to Rub 24,514 million due to the large-scale LH contract in the oil & gas business segment in addition to a stable inflow of orders for standard equipment.

GROUP PERFORMANCE

The Group's revenue for 9 months 2014 decreased by 9% year-on-year to Rub 21,233 million, with revenue from the industrial pumps business segment amounting to Rub 11,406 million or 54% of total Group's revenue. At the same time, EBITDA declined by 17% year-on-year to Rub 3,046 million. As a result, EBITDA margin for 9 months 2014 totaled 14.3%.

Rub mn	9m 2014	9m 2013	Change yoy
Revenue	21,233	23,228	-9%
EBITDA	3,046	3,653	-17%
EBITDA margin	14.3%	15.7%	-138 bps

[3] Liquid Hydrocarbon project
[4] Under management accounts

The Group's cost of sales, which traditionally accounts for about ¾ of total revenue decreased by 7% year-on-year from Rub 16,808 million to Rub 15,632 million in line with a revenue decline.

Cost of sales, Rub mn	9m 2014	Share of revenue	9m 2013	Share of revenue	Change yoy
Cost of sales	**15,632**	**74%**	**16,808**	**72%**	**-7%**
Suppliers and raw materials	7,425	35%	8,164	35%	-9%
Labour costs	4,228	20%	4,133	18%	2%
Cost of goods sold	1,402	7%	1,581	7%	-11%

Key components of cost of sales – supplies and raw materials combined with cost of goods sold – stayed at the same level and accounted for 42% share of revenue.

Labour costs grew both in absolute numbers and as a percentage of revenue mostly due to acquisition of NIITurbokompressor (NIITK).

Operating expenses, Rub mn	9m 2014	Share of revenue	9m 2013	Share of revenue	Change yoy
Distribution and transportation	923	4%	963	4%	-4%
General and administrative	2,825	13%	2,831	12%	0%
Other operating expenses	141	1%	175	1%	-19%
Finance costs	1,332	6%	1,250	5%	7%

Distribution and transportation expenses were down 4% year-on-year and achieved Rub 923 million for 9 months 2014. As a percentage of revenue, they were flat in comparable periods.

General and administrative expenses totaled Rub 2,825 million, no changes for 9 months 2014 in spite of inflation growth. As a percentage of revenue, they grew from 12% to 13% for 9 months 2014 due to revenue decline.

Other operating expenses declined by 19% year-on-year to Rub 141 million, comprising less than 1% of the Group's revenue

Depreciation and amortization for 9 months 2014 totaled Rub 1,088 million, up 12% year-on-year. NIITK and Noyabrskneftegazproekt (NNGP), acquired in 2Q 2013, attributed to this growth. Increase in depreciation and amortization impacted the Group's bottom line.

For 9 months 2014, the Group's operating profit decreased by 47% year-on-year to Rub 1,713 million.

Finance costs increase was related not to interest expenses growth, quite the opposite, they decreased by 11% year-on-year to Rub 1,015 million compared to Rub 1,137 million for 9 months 2013. The main factor was a foreign exchange loss that increased by 208% year-on-year from Rub 99 million last period to Rub 305 million for 9 months 2014, due to FX-nominated credits - Euro 26 million loan and an intragroup Rub 531 million loan, nominated in Rubles but transferred in UAH – which together generated more than 90% of this loss.

HMS' reported profit before income tax slipped down by 75% to Rub 523 million versus Rub 2.1 billion a year ago not only because of reduction in revenue. 9 months 2013 profit before income tax was higher also due to an influence of excess of fair value of net assets acquired over the cost of acquisition (Rub 955 million) along with negative impairment of assets of construction business (-Rub 151 million). The least factor of such profit drop vs. last period was increase in finance costs by 7% year-on-year from Rub 1,250 million to Rub 1,332 million.

The Company recorded a net profit of Rub 257 million for 9 months 2014, compared to a net profit of Rub 777 million for 9 months 2013. If we adjust profit for 9 months 2013 by excess of fair value of net assets acquired over the cost of acquisition and impairment of assets of construction business, then it would turn negative Rub 27 million.

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 built to standard specifications; it also provides aftermarket maintenance and repair services and other support for its products.

Industrial pumps, Rub mn	9m 2014	9m 2013	Change yoy
Revenue	11,406	13,001	-12%
EBITDA	1,839	2,451	-25%
EBITDA margin	16.1%	18.9%	-273 bps

For 9 months 2014, the industrial pumps business segment's revenue declined by 12% year-on-year to Rub 11,406 million from Rub 13,001 million, while EBITDA decreased by 25% year-on-year to Rub 1,839 million. EBITDA margin stood at a healthy 16%.

The key factors behind the segment's margin decline were lower demand on some types of standard pumps (power generation and oil treatment), combined with less revenue and EBITDA recognized under integrated solutions and no new large pump contracts signed.

Oil & Gas equipment Business Segment

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.

OG equipment, Rub mn	9m 2014	9m 2013	Change yoy
Revenue	6,009	5,448	10%
EBITDA	963	767	26%
EBITDA margin	16.0%	14.1%	195 bps

Revenue in the oil & gas equipment business increased by 10% year-on-year to Rub 6,009 million, compared to Rub 5,448 million for 9 months 2013. The segment's EBITDA grew by 26% year-on-year to Rub 963 million vs. Rub 767 million for 9 months 2013. Recognition of revenue and EBITDA under large projects made a partial contribution to such performance.

Compressors Business Segment

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.

Compressors, Rub mn	9m 2014	9m 2013	Change yoy
Revenue	1,500	2,717	-45%
EBITDA	-252	250	n/a
EBITDA margin	-16.8%	9.2%	n/a

The compressors business segment significantly underperformed in the reporting period, where revenue dropped by 45% and EBITDA turned negative to Rub -252 million. As a result, the segment's EBITDA margin was negative.

9 months 2014 weak performance reflects delays and failures of some targeted tenders. In addition to these factors, a deferred start of Rospan project and a further postponement of its second stage to 2015 also impacted the segment's results.

The management launched a cost-cutting program, designed to partially compensate the abovementioned delays, but the segment is expected to benefit only next year.

Engineering, Procurement and Construction (EPC) Business Segment

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.

EPC, Rub mn	9m 2014	9m 2013	Change yoy
Revenue	2,318	2,057	13%
EBITDA	311	-212	-247%
EBITDA margin	13.4%	-10.3%	2,375 bps

EPC was the second business segment that improved its results in the reporting period in comparison with last year performance, where revenue grew by 13% year-on-year and EBITDA turned positive Rub 311 million. EBITDA margin achieved relatively high 13%.

The reached growth was attributable to optimization of construction business, represented by Tomskgazstroy (TGS) that showed positive margin in the reporting period. The results of GTNG were lower-than-expected due to delays in some projects by its strategic partner.

FINANCIAL REVIEW

Cash flow performance

Cash flow performance, Rub mn	9m 2014	9m 2013	Change yoy
Net cash from/(used in) operating activities	-1,259	-480	162%
Net cash used in investing activities	-727	-2,170	-66%
Net cash from financing activities	1,588	2,337	-32%
Free cash flow (FCF)	-1,987	-2,650	-25%

As of September 30, 2014, operating cash outflow totaled Rub 1,259 million as a result of working capital increase and revenue decrease.

Working capital from the 1st January of 2014 increased by 44% to Rub 7,492 million due to execution of large oil & gas equipment projects. But when compare year-on-year, working capital for 9 months 2014 comprised 25% of total revenue LTM vs. 29% for the previous period.

The outflow from investing activities decreased from Rub 2,170 million to Rub 727 million due to the absence of M&A deals and slowdown in CAPEX spending. Capital expenditures were in line with the Group’s expectations and amounted to Rub 891 million versus Rub 1,112 million last period.

Free cash flow staid negative Rub 1,987 million for 9 months 2014, but less than negative Rub 2,650 million for 9 months 2013.

Debt and Liquidity position

Debt & Liquidity, Rub mn	9m 2014	9m 2013	Change yoy
Total debt	14,752	16,202	-9%
Long-term debt	11,478	11,635	-1%
Short-term debt	3,274	4,567	-28%
Cash & cash equivalents	1,190	1,040	14%
Net debt	13,562	15,162	-11%
EBITDA LTM	4,632	5,736	-19%
Net debt / EBITDA LTM	2.93	2.64	

For 9 months 2014, the Group's total debt decreased by 9% year-on-year to Rub 14,752 million compared to Rub 16,202 million in the previous period. Long-term facilities represented 78% of the total debt. Debt reduction was a result of managerial efforts on working capital optimization.

Net debt decreased to Rub 13,562 million, while Net debt-to-EBITDA LTM ratio was at 2.9x, that is within banks covenants.

As of December 1, 2014, a weighted-average interest rate was 9.9% for all loans, including FX-denominated, and 10.6% for Rub-denominated only.

As of December 1, 2014, HMS Group has a quite solid liquidity position with Rub 1.1 billion in cash combined with committed unused credit lines of Rub 0.8 billion with maturity more than 12 months.

FINANCIAL MANAGEMENT

In September 2014, HMS Group made a partial redemption of its Ruble bonds for Rub 900 million excluding accumulated coupon interest. The company purchased 900,000 bonds at 100% par value. Bonds buy-back was financed by an unsecured non-revolving credit line up to 2 years, lent by Raiffeisenbank at the end of this August. The bank also acted as a purchase agent.

In November Standard & Poor's Rating Services lowered the long-term corporate rating of the company from "B" to "B-" and placed it on CreditWatch with negative implications. Also, S&P downgraded Rub 5.1bn notes issued by HMS' subsidiary CJSC Hydromashservice to "CCC+" and placed them on CreditWatch negative. According to S&P, the downgrade reflects discomfort about the Rub 2.1bn unsecured bond repayment in February 2015.

Currently HMS Group prepares to redeem bonds through a mixture of operating and financing cash-flows. In particular, the Group is in stage of negotiations with banks about bonds refinancing.

PRINCIPAL RISKS AND OPPORTUNITIES

HMS Group may be exposed to various political, economic and other risks in its countries of operations (Russia, Ukraine and Belarus). One of the Group's subsidiaries, Nasosenergomash (NEM), is located in Sumy, Ukraine. Pumps produced by NEM are primarily sold to Russian customers. For 9 months 2014 and for the year 2013, its revenue approximated 10% of the Group's consolidated revenue. To date, political environment in Ukraine hasn't directly impacted operating activities of NEM. Meanwhile, the Group's management believes, that certain customers may take a conservative and cautious position, when considering the purchase of products made in Ukraine. However, opportunities to change a supplier are limited, as major competitors of NEM are located in the US and Western Europe. Due to these risks, as well as a high-level capacity utilisation of NEM, the Group has speeded up the previously developed project aimed at building up the respective competencies within its Russian subsidiaries.

Regular business between Russia and Ukraine is currently under threat. The Group's management doesn't exclude the worst scenario of the development of Ukrainian crisis, which may result in the full termination of goods delivery from Ukraine to Russia.

Since March 2014, the US and EU have imposed sanctions on certain Russian sectors, officials and companies. Sectoral sanctions are authorized, among others, on the energy sector with particular target of the oil exploration and production for deepwater, Arctic offshore and shale projects. Certain Russian oil companies are subjects to capital markets restrictions. HMS Group, not being directly affected by these sanctions, is exposed to associated risks. The Group's management identifies potential risks of reduction of CAPEX programs by Russian oil & gas companies, which can affect the Group's performance due to its large exposure to Russian oil & gas sector.

The US and EU sanctions, imposed on Russian energy sector are limited to the oil exploration and production for deepwater, Arctic offshore and shale projects. The Group's management believes that such situation could catalyze the development of traditional oil & gas projects and as a result the Group may benefit from this situation, as most of its products are used for that type of projects.

Russia may increase import duties for oil & gas equipment to stimulate domestic production. Certain customers have taken a conservative and cautious position when considering the purchase of products made by foreign manufacturers. The Group may benefit from a lower competition with foreign pump producers. Moreover, HMS is already a partner of choice for many Russian oil & gas majors.

Gazprom's "Eastern gas program" is the key project in Russian gas sector targeting the establishment of a new gas export center in Eastern Russia to supply pipeline gas from Russia to the Asian-Pacific region. The Group may benefit from delivery of its compressor equipment for adjacent pipelines to the GTS "The Power of Siberia" and participation in the development of the Chayandinskoye deposit.

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WEBCAST TO DISCUSS 9 MONTHS 2014 IFRS FINANCIAL RESULTS

TUESDAY, 16 December 2014
7.00 AM (EST) / 12.00 PM (GMT) / 1.00 PM (CET) / 3.00 PM (MOSCOW)

Speakers:
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:	8960705
Title:	HMS Group 9 months 2014 IFRS results

Webcast meeting:
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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
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.

The forward-looking statements contained herein are based upon various assumptions, many of which are based, in turn, upon further assumptions, which may include without limitation, the HMS Group's examination of historical operating trends, data contained in the HMS Group's records and other data available from third parties. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist *that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The HMS Group does not intend to provide any representation or warranty and does not assume any obligation to update any forward-looking statement contained herein.*