HMS Group announces management statement and financial highlights for 3 months 2015

Moscow, Russia – June 16, 2015 – 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 financial results for 3 months ended March 31, 2015.

3 months 2015 HIGHLIGHTS:

- Backlog increased by 4% yoy to Rub 26.8 billion, while order intake stayed almost flat yoy at Rub 6.7 billion, maintained by a steady demand for standard equipment
- Revenue of Rub 7.6 billion grew by 25% yoy
- EBITDA[1] totaled Rub 1.6 billion, up more than twofold yoy, with EBITDA margin of 21.6%
- Operating profit demonstrated substantial increase to Rub 1.0 billion with margin at 13.8%
- Profit for the year turned positive Rub 0.3 billion, up from negative Rub 0.3 billion
- Total debt grew by 23% yoy to Rub 15.8 billion from Rub 12.9 billion
- Net debt increased by 30% yoy to Rub 14.5 billion resulting in Net debt-to-EBITDA ratio of 2.37x
- Return on capital employed (ROCE)[2] increased to 14.7% vs. 13.3% for the comparative period

[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 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] 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)).

Commenting on the financial results, Artem Molchanov, Managing Director (CEO) of HMS Group, stated:

"In the 1st quarter of 2015, we reached 25% year-on-year increase of HMS' revenue and more than twofold growth of EBITDA, resulted in a substantial level of EBITDA margin. In some degree, this can be explained by a low base effect of the last 1st quarter. But, in the whole, these financial results are a direct subsequence of import substitution, positive currency effect, cost optimization and new contracts signed, both in Russia and abroad. Though we don't wait for the sustainability of 22% EBITDA margin, achieved in the 1st quarter, we feel optimistic about the 2015 year and expect growing revenue and EBITDA compared to last year.

The Group's business segments demonstrated mixed performance, but all our machine-building business segments grew in term of EBITDA, which, in turn, increased the whole EBITDA level more than twofold on year-on-year basis.

We remain cautious about economic uncertainties, including situation in Ukraine, economic downturn and financial instability in Russia, but we still feel confidence in 2015 financial results, guided at a conference call with investors at the end of this April, which is maintained by growing backlog and currently running process of import substitution".

OPERATING REVIEW

BACKLOG & ORDER INTAKE

The Group built its backlog at Rub 26,848 million, up 4% yoy on the back of growth in all machine-building business segments, which demonstrated positive dynamics in the reporting period.

Backlog, Rub mn	3m 2015	3m 2014	Change yoy
Industrial pumps	11,030	10,806	2%
Oil & Gas equipment	11,057	10,221	8%
Compressors	2,283	2,207	3%
EPC	2,478	2,554	-3%
Construction	1,400	939	49%
Project and design	1,078	1,615	-33%
Total	**26,848**	**25,788**	**4%**

In the pump business segment, the backlog increased by 2% yoy to Rub 11,030 million mainly because of growing inflow of standard equipment orders.

Backlog grew by 8% yoy in the oil & gas equipment business segment and achieved Rub 11,057 million.

The compressors increased by 3% yoy to Rub 2,283 million mainly due to a sustainable level of standard small- and middle-size orders.

The EPC segment's backlog showed negative dynamics with decline by 3% yoy to Rub 2,478 million as a result of delay of some new projects in the project and design (EP) sub-segment due to uncertainties in the economy. At the same time, the backlog of the construction (C) sub-segment grew by 49% yoy.

Order intake[3] for 3 months 2015 equaled Rub 6.7 billion and remained almost the same compared to the 1st quarter of 2014. The decrease in orders for oil & gas equipment was almost completely compensated for by growth of orders in all other business segments.

Order intake, Rub mn	3m 2015	3m 2014	Change yoy
Industrial pumps	4,344	4,128	5%
Oil & gas equipment	1,344	2,099	-36%
Compressors	643	263	144%
EPC	342	202	69%
Construction	0	0	n/a
Project and design	341	202	69%
Total	**6,673**	**6,692**	**0%**

GROUP PERFORMANCE

HMS' revenue amounted to Rub 7,599 million, 25% yoy higher than Rub 6,080 million for 3 months last year. EBITDA grew by 111% yoy to Rub 1,642 million. As a result, EBITDA margin for 3 months 2015 reached 21.6% versus 12.8% last year.

Rub mn	3m 2015	3m 2014	Change yoy
Revenue	7,599	6,080	25%
EBITDA	1,642	777	111%
EBITDA margin	21.6%	12.8%	

Such significant development of revenue and EBITDA, in the first place, resulted from a combination of several factors:

- Large contracts in Oil & gas business segment,
- Import substitution program and growing export of HMS' products,
- Depreciation of Russian ruble to world currencies and Ukrainian hryvnia to Russian ruble,
- Ability to put the growth in costs on customers via increase in prices on a number of products,
- Costs optimization.

Sharp changes in the exchange rates directly influenced financial results of HMS Group – both financial expenses (described below at the *Financial review* section) and operating margin of HMS. Depreciation of Ukrainian hryvnia to Russian ruble and Euro/US dollar, as well as depreciation of Russian ruble to Euro/US dollar, allowed the Group:

[3] Under management accounts

- To ship export production at "new" FX rate prices with expenses incurred at "old" FX rates, or to increase product prices with past purchases of components at "old" lower prices - one-off effect on the 1st quarter results, and
- To improve its competitive position and add advantages in pricing vs. foreign peers - middle-term effect on 2015 results.

The pumps business segment was the main beneficiary of above positive effects.

The Group's cost of sales grew by 14% yoy to Rub 5,242 million from Rub 4,588 million, driven mainly by growth of supplies and raw materials. Combined contribution to the cost of sales from its key components - supplies and raw materials and cost of goods sold – accounted for 45% share of revenue for 3 months 2015 compared to 40% last year. At the same time, share of labor cost in revenue decreased to 20% from 25% in the compared period because of large contracts, which are more material-intensive and less labor-consuming.

Other expenses declined substantially because of decrease in costs for construction and installation works of subcontractors and change in work in progress and finished goods.

Cost of sales, Rub mn	**3m 2015**	**Share of revenue**	**3m 2014**	**Share of revenue**	**Change yoy**
Cost of sales	**5,242**	**69%**	**4,588**	**75%**	**14%**
Supplies and raw materials	3,298	43%	2,274	37%	45%
Labour costs	1,539	20%	1,511	25%	2%
Depreciation and amortization	336	4%	304	5%	11%
Cost of goods sold	159	2%	138	2%	15%
Others	-91	-1%	361	6%	-125%

Though total operating expenses grew by 2% yoy to Rub 1,310 million from Rub 1,285 million, as a percentage of revenue they dropped to 17% for 3 months 2015 vs. 21% in the comparative period.

Distribution and transportation expenses were down by 1% yoy to Rub 304 million rubles, and as a percentage of revenue they comprised 4% vs. 5% for 3 months 2014.

General and administrative expenses totaled Rub 920 million for 3 months 2015, up 2% yoy, primarily because of growth in labour costs.

In absolute figures, SG&A expenses grew, but as a share of revenue they decreased to 16% from 20% for 3 months 2014, a direct consequence of operating leverage, when revenue is growing and labor costs level is stable.

Operating expenses, Rub mn	3m 2015	Share of revenue	3m 2014	Share of revenue	Change yoy
Distribution and transportation	304	4.0%	306	5.0%	-1%
General and administrative	920	12.1%	905	14.9%	2%
Other operating expenses	86	1.1%	74	1.2%	16%
Total operating expenses	**1,310**	**17.2%**	**1,285**	**21.1%**	**2%**
Finance costs	566	7.4%	576	9.5%	-2%

Operating profit increased several-fold to Rub 1,047 million from Rub 207 million, and operating margin reached 13.8%.

Finance costs decreased by 2% yoy, where interest expenses for 3 months 2015 were 40% yoy higher and reached Rub 432 million, and foreign exchange loss, on the contrary, decreased by 49% yoy to Rub 134 million from Rub 263 million last year.

Interest expenses increase was a direct result of an average debt burden[4] growth (Rub 16.4 billion for 3 months 2015 vs. Rub 12.8 billion for 3 months 2014) combined with an average interest rate[5] growth (10.55% as of 01.04.2015 vs. 9.55% as of 01.04.2014).

Intrinsically, foreign exchange loss (profit) is almost a pure accounting “paper” item. This exchange loss, in a greater or lesser degree, where it relates to intragroup ruble loans, didn’t reflect any real foreign exchange risk. For 3 months 2015, foreign exchange loss was composed of:

- Foreign exchange profit of Rub 130 million from HMS Neftemash’s euro loan revaluation,
- Foreign exchange loss of – Rub 171 million from Nasosenergomash’s intragroup ruble loans revaluation,
- Foreign exchange loss of – Rub 92 million from Bobruisk Machine Building Plant’s intragroup ruble loans and US dollar bank loans revaluation.

Foreign exchange loss from ruble loans is recognized for Ukrainian and Belarusian production facilities because their operating currencies are Hryvnia and Belarusian ruble and in the context of the Group’s consolidated financial reporting their loans’ revaluation results in a loss.

Profit for the period increased to Rub 330 million from Rub 311 million loss for the period for 3 months 2014.

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[4] Total debt average for 3 months 2015 is derived as (Total debt for 2014FY + Total debt for 3m2015)/2, and total debt average for 3 months 2014 is derived as (Total debt for 2013FY + Total debt for 3m2014)/2.
[5] Herein, average interest rate as of 01.04.2015 is derived as (weighted average interest rate on 01.01.2015 + weighted average interest rate on 01.04.2015)/2, and average interest rate as of 01.04.2014 is derived as (weighted average interest rate on 01.01.2014 + weighted average interest rate on 01.04.2014)/2.

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	3m 2015	3m 2014	Change yoy
Revenue	2,873	3,477	-17%
EBITDA	796	513	55%
EBITDA margin	27.7%	14.8%	

The industrial pumps business segment's revenue declined by 17% yoy to Rub 2,873 million from Rub 3,477 million. At the same time, EBITDA increased by 55% yoy to Rub 796 million, due to several factors: input of large-scale contracts, import substitution, costs optimization and depreciation of ruble and hryvnia. As a result, EBITDA margin grew up to 27.7%.

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.

Oil & Gas equipment, Rub mn	3m 2015	3m 2014	Change yoy
Revenue	3,499	1,446	142%
EBITDA	750	168	346%
EBITDA margin	21.4%	11.6%	

The oil & gas equipment business segment demonstrated outstanding growth both in revenue and EBITDA terms, where revenue increased 1.5 times to Rub 3,499 million and the latter was up 346% yoy and reached Rub 750 million vs. Rub 168 million last year.

As a result of increased share of integrated solutions, EBITDA margin reached 21.4% versus 11.6% last year.

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	3m 2015	3m 2014	Change yoy
Revenue	528	294	80%
EBITDA	35	-54	n/a
EBITDA margin	6.6%	-18.4%	

Revenue increased by 80% yoy to Rub 528 million and EBITDA turned positive Rub 35 million in comparison to negative Rub 54 million last year. The improving results of the compressors business segment are explained by the development of contracts base.

EBITDA margin is still lower than the average, but it has become positive 6.6% already vs. negative 18.4% last 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	3m 2015	3m 2014	Change yoy
Revenue EPC	699	862	-19%
Project and design	315	567	-44%
Construction	384	295	30%
EBITDA EPC	94	144	-35%
Project and design	37	88	-58%
Construction	57	56	1%
EBITDA margin EPC	13.4%	16.7%	
Project and design	11.7%	15.4%	
Construction	14.8%	19.1%	

The EPC business segment delivered relatively weaker results compared to 3 months 2014 with revenue down to Rub 699 million and EBITDA decreasing by 35% yoy to Rub 94 million, due to the mixed results of the EPC sub-segments.

In general, the EPC segment is experiencing tougher competition and deterioration of pricing, which influenced the segment's financial results, though the construction sub-segment, contrary to the project and design, showed a 30% yoy growth in revenue and a stable level of EBITDA.

FINANCIAL REVIEW

Cash flow performance

Cash flow performance, Rub mn	3m 2015	3m 2014	Change yoy
Net cash (used in)/from operating activities	-2,061	144	-1,529%
Net cash used in investing activities	-298	-160	86%
Net cash (used in)/from financing activities	-860	142	-706%
Free cash flow (FCF)	-2,358	-15	15,204%

Operating cash flow dropped significantly to negative Rub 2,061 million primarily because of changes in working capital – working capital grew not only because of execution of 2 large oil & gas equipment contracts. In 4Q 2014 the Group was accumulating cash to ensure it would have enough money to redeem its ruble bonds series 02 in February 2015 and squeezed working capital to the minimum. And in 1Q 2015, after the successful indebtedness repayment, HMS released these funds which along with large contracts execution resulted in a boosted growth of the whole level of working capital.

Capital expenditures for 3 months 2015 grew by 37% yoy to Rub 301 million from Rub 219 million for 3 months 2014. The main reason of such increase is the current development of manufacture competences for high capacity oil transport pumps and nuclear pumps in Russia, which contributed about Rub 100 million to the whole Group's capex.

Debt and Liquidity position

Debt & Liquidity, Rub mn	3m 2015	3m 2014	Change yoy
Total debt	15,817	12,857	23%
Long-term debt	9,207	8,477	9%
Short-term debt	6,611	4,380	51%
Cash & cash equivalents	1,302	1,701	-23%
Net debt	14,515	11,156	30%
Net debt / EBITDA LTM	2.37	2.10	

As of 01 April 2015, HMS Group increased its total debt by 23% yoy to Rub 15,817 million from Rub 12,857 million as of 01 April 2014. The increase in debt was mainly a result of required working capital growth incidental to execution of large projects. Net debt increased by 30% yoy to Rub 14,515 million.

As a result, the Net debt-to-EBITDA ratio amounted to 2.37x, and under a net debt-to-EBITDA bank maintenance covenant with a 4.50x threshold is implying an ample headroom for the next 12 months.

As of 1 April 2015, despite limited access to capital markets and thus sharp increase in rates thanks to managerial efforts the weighted average interest rate was 11.0% for all loans, including FX-denominated.

FINANCIAL MANAGEMENT & SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Debt management

In January 2015, the Group made a partial redemption of its Rubles bonds series 02 for Rub 1.9 billion excluding accumulated coupon interest. Though HMS Group made a public offer to acquire the outstanding securities for Rub 2.1 billion at 100% par value, it received claims only for Rub 1.9 billion. The buy-back was financed by both HMS' own funds and credit lines. Raiffeisenbank acted as the purchase agent. As a result of above actions, only Rub 177 million bonds series 02 left to be redeemed on maturity date and they were successfully paid off in February 2015.

In April 2015, the Group signed an agreement with UniCredit Bank to open a long-term loan facility in the amount of Rub 1.5 billion. This 3-year non-revolving credit line with maturity in April 2018 will be utilized for general corporate needs.

In June 2015, the Group signed an agreement with VTB Bank to open a 5-year loan facility in the amount of Rub 4.5 billion. This non-revolving uncommitted credit line will be used by the credit tranches provided for the term not exceeding 36 months, taking into account the term of validity of the credit agreement, and will be utilized for general corporate needs.

In the 2nd quarter of 2015 and up to date, the Group bought on the market its outstanding Ruble bonds series 03 for the total amount of 543,998 bonds at market prices. The purchases were financed by both HMS' own funds and credit lines.

Dividends

On 22 April 2015, the Board of Directors recommended that no dividend should be paid by HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC in respect of the financial year ended 31 December 2014.

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WEBCAST TO DISCUSS 3 MONTHS 2015 IFRS FINANCIAL RESULTS

TUESDAY, 16 June 2015
10.00 AM (EST) / 4.00 PM (GMT) / 3.00 PM (CET) / 5.00 PM (MOSCOW)

Speakers:
Kirill Molchanov – First Deputy General Director and Co-Founder
Alexander Rybin – Head of Capital Markets

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Conference ID:	6156667
Title:	HMS Group 3 months 2015 IFRS results

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

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

For more information, please contact:
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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.