HMS Group announces management statement and financial highlights for six months 2017

Moscow, Russia – October 6, 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 6 months ended June 30, 2017.

Financial highlights 6m 2017:

- Revenue up 5% yoy to Rub 21.3 billion
- EBITDA[1] increased 6% yoy to Rub 3.1 billion with EBITDA margin up to 14.7%
- Operating profit increased 12% yoy to Rub 2.0 billion, operating margin up to 9.3%
- Profit for the period grew 19% yoy to Rub 828 million, with net income margin of 3.9%

- Total debt declined 1% yoy to Rub 16.0 billion
- Net debt up 7% yoy to Rub 13.6 billion
- Net debt-to-EBITDA LTM ratio amounted to 2.07x

Operational highlights 6m 2017:

- Backlog more than doubled and reached Rub 62.6 billion, including Rub 23.3 billion contract signed in 2Q 2017
- Order intake up 170% yoy to Rub 60.6 billion

Guidance 2017:

- **Revenue:** slightly higher than previously announced Rub 48 billion
- **EBITDA:** unchanged, at Rub 6.2-6.8 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.

Change in Business segments and reporting structure
Effective 1 January 2017, the results of Giprotyumenneftegaz PJSC and Institute Rostovskiy Vodokanalproekt OJSC are 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 is referred to as "Construction" segment, and "Oil and gas equipment" segment is referred to as "Oil and gas equipment and projects" segment. These changes have been reflected in the segment information, both for the reporting and comparative periods.

OPERATING REVIEW

BACKLOG & ORDER INTAKE

Backlog more than doubled and reached its historic maximum of Rub 62,574 million. The main driver was the oil & gas equipment and projects business segment (OGEP).

Backlog, Rub mn	2017 6m	2016 6m	Change yoy
Industrial pumps	11,128	8,405	32%
Oil & Gas equipment	44,944	11,194	302%
Compressors	5,652	6,291	-10%
Construction	849	307	177%
Total	**62,574**	**26,197**	**139%**

In the pump business segment, the backlog increased by 32% yoy to Rub 11,128 million based only on recurring business, especially because of orders for nuclear pumps.

In the OGEP business segment, the backlog grew by 302% yoy because of growth of the number of large contracts.

The compressors, in contrast, declined by 10% yoy because of revenue recognition of large contracts combined with fewer recurring contracts signed in the reporting period.

The construction grew by 177% yoy to Rub 849 million.

Order intake, Rub mn	2017 6m	2016 6m	Change yoy
Industrial pumps	8,686	5,990	45%
Oil & gas equipment	46,411	12,198	280%
Compressors	5,059	3,973	27%
Construction	404	246	65%
Total	**60,561**	**22,406**	**170%**

Order intake[2] for 6 months 2017 sizably increased to Rub 60,561 million (+170% yoy) due to four large contracts signed in the reporting period:

[2] According to management accounts

- **Project (1):** Rub 10.2 billion: Delivery of oil & gas equipment for one of the largest gas fields in Russia (1Q);
- **Project (2):** Rub 6.3 billion: Second contract for delivery of oil & gas equipment for one of the largest gas fields in Russia (2Q). The company plans to start works on the project in the coming days, though its profitability will be lower than average for such kind of projects;
- **Project (3):** Rub 3.9 billion: Delivery of compressor equipment to gas booster stations (1Q);
- **Project (4):** Rub 23.3 billion: Delivery of oil & gas equipment for reconstruction of a gas processing plant (2Q).

Record order intake was also supported by recurring business (+14% yoy).

Note to HMS' Backlog and Order intake:

The Project (4) is still subject to uncertainty as the company hasn't received any advance payments, and even hasn't started any work on the Project. HMS isn't certain that the execution of this project will start in the nearest future. If excluding this contract, Backlog grew by 50% yoy to Rub 39,239 million and Order intake increased 66% yoy to Rub 37,226 million.

Operating performance adj., Rub mn	2017 6m	2016 6m	Change yoy
Backlog, *where*	39,239	26,197	50%
OGEP segment	*21,610*	*11,194*	*93%*
Order intake, *where*	37,226	22,406	66%
OGEP segment	*23,076*	*12,198*	*89%*

GROUP PERFORMANCE

Revenue increased by 5% yoy and amounted to Rub 21,349 million due to contribution from the OGEP business segment.

EBITDA grew by 6% yoy to Rub 3,138 million because of an increase in the compressors and the pumps business segments. Due to better EBITDA dynamics, EBITDA margin increased to 14.7% versus 14.5% in the previous year.

Rub mn	2017 6m	2016 6m	Change yoy
Revenue	21,349	20,363	5%
EBITDA	3,138	2,956	6%
EBITDA margin	14.7%	14.5%	

The largest share of the Group's revenue was generated by recurring business. Moreover, only machine-building recurring products grew 10% yoy. Revenue from large contracts increased 3% yoy.

In terms of EBITDA, large contracts generated more than last year (+25 % yoy). And this resulted in higher EBITDA margin.

Cost of sales, Rub mn	2017 6m	2016 6m	Change yoy	Share of 2017 6m revenue	Share of 2016 6m revenue
Cost of sales	**15,961**	**15,387**	**4%**	**75%**	**76%**
Materials and components	11,372	10,690	6%	53%	52%
Labour costs	2,491	2,312	8%	12%	11%
Construction & design and engineering services of subcontractors	456	708	-36%	2%	3%
Depreciation and amortization	641	658	-3%	3%	3%
Others	1,001	1,018	-2%	5%	5%

Cost of sales grew by 4% yoy to Rub 15,961 million because of an increase in materials and components (+6% yoy) and labour costs (+8% yoy). At the same time, cost of sales decreased to 75% as a share of revenue.

	2017 6m	2016 6m	Change yoy	Share of 2017 6m revenue	Share of 2016 6m revenue
Distribution and transportation	899	883	2%	4%	4%
General and administrative	2,359	2,098	12%	11%	10%
SG&A expenses	**3,258**	**2,982**	**9%**	**15%**	**15%**
Other operating expenses	152	224	-32%	1%	1%
Operating expenses ex. Cost of sales	**3,410**	**3,206**	**6%**	**16%**	**16%**
Finance costs	930	887	5%	4%	4%

SG&A expenses[3] in absolute figures increased 9% yoy, as a share of revenue stayed unchanged at 15%.

Operating expenses excl. cost of sales grew by 6% yoy and as a share of revenue stood unchanged at 16% for 6 months 2017. The main reason was an increase in labor costs due to budgeted growth in wages and hired personnel.

Distribution and transportation expenses grew by 2% yoy to Rub 899 million. As a share of revenue, they stayed stable at 4%.

General and administrative expenses grew by 12% yoy to Rub 2,359 million mainly because of growth in labour costs and audit and consultancy services. As a share of revenue, general and administrative expenses grew to 11%.

Operating profit grew by 12% yoy to Rub 1,977 million from Rub 1,771 million, and operating margin increased to 9.3% from 8.7% for 6 months of the comparative period.

Finance costs, Rub mn	2017 6m	2016 6m	Change yoy
Finance costs	**930**	**887**	**5%**
Interest expenses	*930*	*989*	*-6%*
Foreign exchange gain, net	*-1*	*-101*	*-99%*
Finance lease expenses	*1*	*0*	*na*
Interest rate, ave	10.7%	12.4%	
Interest rate Rub, ave	10.9%	12.9%	

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

Finance costs grew by 5% yoy. Interest expenses, in contrast, were 6% lower yoy, due to decreased interest rates because of the successful debt portfolio refinancing.

Profit for the period increased to Rub 828 million from Rub 696 million (+19% yoy).

SEGMENT PERFORMANCE

Industrial pumps Business Segment[i]

Industrial pumps, Rub mn	2017 6m	2016 6m	Change yoy
Revenue	7,928	7,716	3%
EBITDA	1,282	931	38%
EBITDA margin	16.2%	12.1%	

The industrial pumps business segment's revenue increased by 3% yoy to Rub 7,928 million from Rub 7,716 million. EBITDA grew to Rub 1,282 million from Rub 931 million in the comparative period, and EBITDA margin recovered to 16.2% that is closer to its "normal" profitability level.

Oil & Gas equipment and projects (OGEP) Business Segment[ii]

Oil & Gas equipment, Rub mn	2017 6m	2016 6m	Change yoy
Revenue	10,423	7,798	34%
EBITDA	650	1,092	-41%
EBITDA margin	6.2%	14.0%	

The OGEP business segment's revenue grew by 34% yoy to Rub 10,423 million from Rub 7,798 million based on recurring business. EBITDA was down 41% yoy to Rub 650 million due to a decrease in EBITDA generated by large contracts as well as their lower profitability, affected by tougher market conditions. As a result, EBITDA margin declined to 6.2%, on the back of a fall in yields of both large contracts and recurring business and inclusion of GTNG in the OGEP business segment.

Compressors Business Segment[iii]

Oil & Gas equipment, Rub mn	2017 6m	2016 6m	Change yoy
Revenue	5,188	4,661	11%
EBITDA	938	441	113%
EBITDA margin	18.1%	9.5%	

Revenue increased by 11% yoy to Rub 5,188 million. EBITDA grew 113% yoy and reached Rub 938 million in comparison to Rub 441 million EBITDA in the previous year, both because of better order intake, enhanced operating efficiency and due to one-off economy derived from a large contract's execution.

EBITDA margin of the compressor business segment reached 18.1%. However, full year EBITDA margin will be lower than for 1H 2017 because of the abovementioned one-off effect, though 2017 FY profitability will improve vs 2016 FY.

Construction[iv]

Construction, Rub mn	2017 6m	2016 6m	Change yoy
Revenue	283	527	-46%
EBITDA	-90	47	-291%
EBITDA margin	-32.0%	9.0%	

Construction delivered weak results both in terms of revenue and EBITDA due to continuous negative trends in the oil & gas construction market.

FINANCIAL REVIEW

Cash flow performance

Working capital increased by 17% yoy due to execution of large contracts, and as a share of revenue grew to 24%.

Working capital & Capex, Rub mn	2017 6m	2016 6m	Change yoy
Working capital	10,008	8,537	17%
Working capital / Revenue LTM	24%	21%	
Capital expenditures	764	766	0%

HMS Group generated positive operating cash flow of Rub 1,668 million, which was 17% yoy higher than last year.

Capital expenditures stayed unchanged at Rub 764 million. The company invested Rub 187 million in the Localization project.

Cash flow performance, Rub mn	2017 6m	2016 6m	Change yoy
Net cash from operating activities	1,668	1,431	17%
Net cash used in investing activities	(739)	(883)	-16%
Free cash flow (FCF)	**930**	**547**	**70%**
Net cash (used in) / from financing activities	(1,499)	(622)	141%
Cash & cash equivalents	2,434	3,361	-28%

Stable investment activities and increased operating cash flow resulted in positive free cash flow[4] of Rub 930 million.

[4] Free cash flow (FCF) = Net cash 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.

Debt and Liquidity position

Debt, Rub mn	2017 6m	2016 6m	Change yoy
Total debt	16,018	16,113	-1%
Long-term debt	*14,905*	*12,699*	*17%*
Short-term debt	*1,113*	*3,414*	*-67%*
Net debt	13,584	12,752	7%
Net debt / EBITDA LTM	2.07	1.81	

Total debt decreased by 1% yoy to Rub 16,018 million from Rub 16,113 million as of 01 July 2016.

Net debt increased by 7% yoy to Rub 13,584 million, and the **Net debt-to-EBITDA LTM ratio** amounted to 2.07x, higher than 1.81x recorded last year because of lower EBITDA LTM in the reporting period.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

Financial management
HMS Group agreed with some banks a decrease in interest rates or refinancing of some loans at lower rates, which resulted in an average interest rate of 10.20 percent as of September 1, 2017.

DIVIDENDS AND HMS GDRS

During the period from June 5, 2017 up to and including October 6, 2017, HMS Group purchased 99,299 of its global depositary receipts (“GDRs”). As of today, HMS Group has purchased 1,002,861 GDRs (4.28 percent of its issued share capital).

On June 20, 2017, the Annual General Meeting of Shareholders approved payment of dividends in respect of FY 2016 in the amount of 5.12 rubles per ordinary share, i.e. 25.6 rubles per one GDR, which were paid on June 27, 2017. Total dividends for the 2016 financial year amounted to 8.53 rubles per ordinary share (42.65 rubles per GDR).

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WEBCAST TO DISCUSS 6 MONTHS 2017 IFRS FINANCIAL RESULTS

MONDAY, 9 October 2017
5.00 PM (MOSCOW) / 3.00 PM (London) / 2.00 PM (CET) / 10.00 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

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Conference ID:	1843251
Title:	HMS Group 6 months 2017 IFRS results

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Please, dial in 5-10 minutes prior to the scheduled start time. Pre-registration is available.
Presentation and Financial Information are available on the company's website (IR section).

For more information, please contact:

Investor Relations
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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.

Press Release Information Accuracy Disclaimer
Information published in press releases was accurate at the time of publication but may be superseded by subsequent releases or other information.

[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 standard specifications; it also provides aftermarket maintenance and repair services and other support for its products.
[ii] The oil and gas equipment and projects business segment manufactures, installs and commissions modular pumping stations, automated metering equipment, oil, gas and water processing and preparation units and other equipment and systems for use primarily in oil extraction and transportation. The segment's core products are equipment packages and systems installed inside a self-contained, free-standing structure which can be transported on trailers and delivered to and installed on the customer's site as a modular but fully integrated part of the customer's technological process.
[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 standard specifications, and compressor-based integrated solutions.
[iv] The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.