HMS Group announces management statement and financial highlights for 6 months 2015

Moscow, Russia – October 6, 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 6 months ended June 30, 2015.

6 months 2015 HIGHLIGHTS:

- Backlog went down by 22% yoy to Rub 23.8 billion, while order intake declined by 20% yoy to Rub 14.9 billion
- For standard equipment only, backlog grew by 1% yoy, and order intake increased by 14% yoy
- Revenue of Rub 16.6 billion grew by 29% yoy
- EBITDA[1] totaled Rub 3.4 billion, up more than twofold, with EBITDA margin of 20.3%
- Operating profit increased threefold to Rub 2.3 billion with margin at 14.1%
- Profit for the period reached Rub 1.1 billion vs. negative Rub 0.2 billion for 6 months 2014
- Total debt grew by 12% yoy to Rub 16.1 billion from Rub 14.5 billion
- Net debt increased by 20% yoy to Rub 14.7 billion resulting in Net debt-to-EBITDA LTM ratio of 2.11x vs. 2.56x for 6 months 2014
- Return on capital employed (ROCE)[2] increased to 17.4% vs. 10.8% for the comparative period

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[1] Management of the Group assesses the performance of operating segments based on a measure of adjusted EBITDA, which is derived from the management report.

For this purpose, adjusted 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:

"For the first six months of 2015, we reached almost 30% year-on-year increase of revenue and twofold growth of EBITDA, resulted in a high level of its margin. In some degree, this can be explained by a low base effect of the 6 months of last year. But, in the whole, these financial results are a direct subsequence of import substitution, positive currency effects, cost optimization and large contracts under execution. Though we don't expect the sustainability of 20% EBITDA margin, achieved in the 1st half of the year, we are optimistic about the 2015 year and expect growing revenues and EBITDA compared to the last year.

All our main business segments grew in terms of EBITDA, which enhanced the whole EBITDA level by 104% on year-on-year basis.

We still remain cautious about economic uncertainties, including oil price fluctuations and economic recession, but we feel confidence in 2015 financial results, maintained by a current backlog and running process of import substitution".

OPERATING REVIEW

BACKLOG & ORDER INTAKE

Backlog of HMS Group for 6 months 2015 reached Rub 23,778 million, which is down 22% yoy due to decline in the Oil & gas equipment business segment, where revenue is recognized on 2 large contracts signed.

Taking into account only standard equipment, the backlog grew by 1% yoy.

Backlog, Rub mn	6m 2015	6m 2014	Change yoy
Industrial pumps	10,643	10,704	-1%
Oil & Gas equipment	7,813	15,487	-50%
Compressors	3,039	2,596	17%
EPC	2,283	1,849	23%
Construction	1,017	858	18%
Project and design	1,267	991	28%
Total	**23,778**	**30,636**	**-22%**

In the pump business segment, the backlog stayed almost flat and decreased by minor 1% yoy to Rub 10,643 million, supported by growing inflow of standard equipment orders (+6% yoy excluding large contracts).

The oil & gas equipment business segment's backlog declined to Rub 7,813 million, due to started recognition of the Group's landmark oil & gas contracts' revenue.

The compressors business segment increased by 17% yoy and reached Rub 3,039 million due to a growing number of small- and middle-size orders. After the reporting date, in the 3rd quarter, a new large Rub 3.5 billion contract to deliver compressor units was signed, thus substantially increasing the compressors segment's backlog.

The EPC segment's backlog grew by 23% yoy to Rub 2,283 million due to a positive dynamics both in the construction and the project & design sub-segments.

Order intake[3] for 6 months 2015 equaled Rub 14.9 billion, down 20% yoy compared to the 1st half of 2014, mainly due to the large Rub 6.5 billion contract signed last year. Taking into account only standard equipment, the order intake grew by 14% yoy versus 6 months 2014.

Order intake, Rub mn	**6m 2015**	**6m 2014**	**Change yoy**
Industrial pumps	8,595	7,298	18%
Oil & gas equipment	3,384	9,628	-65%
Compressors	2,131	1,277	67%
EPC	822	477	72%
Construction	-1	103	n/a
Project and design	824	374	121%
Total	**14,932**	**18,680**	**-20%**

GROUP PERFORMANCE

Revenue reached Rub 16,589 million, 29% yoy higher than Rub 12,842 million for 6 months last year. **EBITDA** grew by 104% yoy to Rub 3,364 million. As a result, EBITDA margin for 6 months 2015 reached 20.3% versus 12.9% for the comparative period.

Rub mn	**6m 2015**	**6m 2014**	**Change yoy**
Revenue	16,589	12,842	29%
EBITDA	3,364	1,652	104%
EBITDA margin	20.3%	12.9%	

Such impressive development of revenue and EBITDA is a result of large contracts execution and growth of margins in 2015 along with a low effect base – disappointing 1st half year of 2014 due to economic sanctions imposed and postponement of a number of projects. All reasons will be observed further in more details in a *"Segment performance"* section, but, in general, the main drivers of such growth in margins are signed oil & gas equipment and compressor contracts to deliver integrated solutions as well as import substitution programs of HMS' key customers.

EBITDA growth is explained not only by revenue growth, but also by several more factors, where we should name:

- Growth of profitability due to large "integrated solutions" contracts,

[3] Under management accounts

- Import substitution program,
- Decline in the production costs of Nasosenergomash (NEM, Ukraine) translated in rubles, due to depreciation of Ukrainian hryvnia to Russian ruble,
- Growth in the profitability of HMS' export contracts due to depreciation of Russian ruble to world main currencies (Euro and US Dollar).

Cost of sales grew by 20% yoy to Rub 11,554 million from Rub 9,609 million, driven by a growth of supplies and raw materials though at a slower pace than revenue. Combined contribution to the cost of sales from its key components - supplies and raw materials and cost of goods sold – accounted for 47% share of revenue for 6 months 2015 compared to 40% last year. At the same time, share of labour cost in revenue decreased to 18% from 23% in the comparative period because of execution of large oil & gas contracts, which are more material-intensive and less labour-consuming.

Other expenses declined substantially because of decrease in "change in work in progress and finished goods", mainly due to the growth of contract portfolio and scheduled delivery of produced products in the 2nd half of 2015, and "other expenses", related to significant sub-contractor works within a Turkmenia project ended in 2014.

Cost of sales, Rub mn	6m 2015	Share of revenue	6m 2014	Share of revenue	Change yoy
Cost of sales	**11,554**	**69.6%**	**9,609**	**74.8%**	**20%**
Supplies and raw materials	7,141	43.0%	4,441	34.6%	61%
Labour costs	2,914	17.6%	2,915	22.7%	0%
Cost of goods sold	706	4.3%	716	5.6%	-1%
Depreciation and amortization	642	3.9%	616	4.8%	4%
Others	151	0.9%	921	7.2%	-84%

Distribution and transportation expenses increased by minor 1% yoy to Rub 623 million rubles, and as a percentage of revenue they decreased to 4% from 5% for 6 months 2014.

General and administrative expenses totaled Rub 1,990 million for 6 months 2015, up 3% yoy, primarily because of 4% yoy growth in labour costs.

In absolute figures, **SG&A expenses**[4] grew by 2% yoy, but in terms of a share of revenue decreased to 16% from 20% for 6 months 2014, a direct consequence of operating leverage, when revenue is growing and labour costs' level in absolute figures is relatively stable.

Total operating expenses[5] grew by 4% yoy to Rub 2,699 million from Rub 2,596 million, but as a percentage of revenue they dropped to 16% for 6 months 2015 vs. 20% in the comparative period.

[4] SG&A expenses = Distribution and transportation expenses + General and administrative expenses
[5] Total operating expenses = Distribution and transportation expenses + General and administrative expenses + Other operating expenses (net)

Operating expenses, Rub mn	6m 2015	Share of revenue	6m 2014	Share of revenue	Change yoy
Distribution and transportation	623	3.8%	619	4.8%	1%
General and administrative	1,990	12.0%	1,939	15.1%	3%
Other operating expenses	86	0.5%	39	0.3%	122%
Total operating expenses *	**2,699**	**16.3%**	**2,596**	**20.2%**	**4%**
Finance costs	926	5.6%	886	6.9%	5%

Operating profit grew more than three-fold to Rub 2,335 million from Rub 636 million, and operating margin reached 14.1%.

Finance costs increased by 5% yoy, where interest expenses for 6 months 2015 were 38% yoy higher and reached Rub 887 million, and foreign exchange loss, on the contrary, decreased by 72% yoy from Rub 237 million for 6 months 2014 to Rub 67 million this year.

Interest expenses' growth was a direct result of an average debt burden[6] growth (Rub 16.6 billion for 6 months 2015 vs. Rub 13.6 billion for 6 months 2014) combined with an average interest rate[7] increase (10.6% as of 01.07.2015 vs. 9.7% as of 01.07.2014 for all loans, including FX-denominated).

Profit for the period increased to Rub 1,101 million vs. Rub 235 million loss for the period for 6 months 2014, as a direct consequence of improvement in operating profit combined with a slight increase in finance costs.

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

Industrial pumps, Rub mn	6m 2015	6m 2014	Change yoy
Revenue	6,904	7,574	-9%
EBITDA	1,927	1,095	76%
EBITDA margin	27.9%	14.5%	

The industrial pumps business segment's revenue declined by 9% yoy to Rub 6,904 million from Rub 7,574 million. At the same time, EBITDA increased by 76% yoy to Rub 1,927 million, due to several

[6] Total debt average 6 months 2015 is derived as (Total debt 31.12.2014 + Total debt 30.06.2015)/2, and total debt average 6 months 2014 is derived as (Total debt 31.12.2013 + Total debt for 30.06.2014)/2.
[7] Herein, average interest rate as of 01.07.2015 is derived as (weighted average interest rate on 01.01.2015 + weighted average interest rate on 01.07.2015)/2, and average interest rate as of 01.07.2014 is derived as (weighted average interest rate on 01.01.2014 + weighted average interest rate on 01.07.2014)/2.

factors: input of contracts to deliver equipment for large-scale "integrated solutions" projects in the oil & gas segment, import substitution, and costs optimization along with NEM's costs depreciation because of deprecation of Ukrainian hryvnia to Russian ruble. As a result, EBITDA margin grew up to 27.9%.

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	6m 2015	6m 2014	Change yoy
Revenue	7,272	2,944	147%
EBITDA	1,175	278	323%
EBITDA margin	16.2%	9.4%	

The oil & gas equipment business segment grew significantly both in terms of revenue and EBITDA. Revenue increased by 147% yoy to Rub 7,272 million, EBITDA was up 323% yoy and reached Rub 1,175 million vs. Rub 278 million last year.

Currently, in this segment HMS has under execution three contracts for delivery of integrated solutions, and share of integrated solutions in the segment's revenue and EBITDA increased substantially with EBITDA margin's growth to 16.2% from 9.4% 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 main products include standard compressors, customized compressors and compressor-based integrated solutions.

Compressors, Rub mn	6m 2015	6m 2014	Change yoy
Revenue	1,050	729	44%
EBITDA	47	-166	n/a
EBITDA margin	4.4%	-22.8%	

Revenue increased by 44% yoy to Rub 1,050 million and EBITDA turned positive Rub 47 million in comparison to negative Rub 166 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 is positive 4.4% already vs. negative 22.8% 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 & gas upstream and midstream.

EPC, Rub mn	6m 2015	6m 2014	Change yoy
Revenue EPC	1,356	1,595	-15%
Project and design	721	1,062	-32%
Construction	635	533	19%
EBITDA EPC	133	209	-36%
Project and design	58	100	-42%
Construction	75	109	-31%
EBITDA margin EPC	9.8%	13.1%	
Project and design	8.1%	9.4%	
Construction	11.8%	20.4%	

The EPC business segment's results are weaker compared to 6 months 2014 with revenue down to Rub 1,356 million and EBITDA decreasing by 36% yoy to Rub 133 million, due to clients' lower than expected capex.

In general, the EPC segment is experiencing tougher competition and deterioration of pricing, which influenced the segment's financial results. As a result, the EPC margin went down to 9.8%.

FINANCIAL REVIEW

Cash flow performance

Cash flow performance, Rub mn	6m 2015	6m 2014	Change yoy
Net cash (used in)/from operating activities	-1,909	-479	299%
Net cash used in investing activities	-564	-450	25%
Net cash (used in)/from financing activities	-514	1,536	-133%
Free cash flow (FCF) *	-2,472	-928	166%

Working capital grew almost twice, by 84% yoy, to Rub 10,143 million from Rub 5,526 million last year, mainly because of current execution of oil & gas contracts. Such essential necessity in working capital was reflected in net debt growth and operating cash outflow, which resulted in a negative free cash flow of Rub 2.5 billion.

Capital expenditures for 6 months 2015 grew by 4% yoy to Rub 558 million from Rub 535 million for 6 months 2014. The largest share of current capital expenditures was channeled to the development of manufacture competences for high-capacity oil transport pumps and nuclear pumps in Russia.

Debt and Liquidity position

Debt & Liquidity, Rub mn	6m 2015	6m 2014	Change yoy
Total debt	16,146	14,454	12%
Long-term debt	10,535	10,187	3%
Short-term debt	5,611	4,267	32%
Cash & cash equivalents	1,440	2,177	-34%
Net debt	14,705	12,276	20%
Net debt / EBITDA LTM	2.11	2.56	

As of 1 July 2015, HMS Group increased its total debt by 12% yoy to Rub 16,146 million from Rub 14,454 million as of 1 July 2014, which was a result of growth of working capital required. Net debt increased by 20% yoy to Rub 14,705 million.

EBITDA's growth rates outperformed debt increase, so net debt-to-EBITDA LTM ratio decreased to 2.11x, which is under the net debt-to-EBITDA LTM bank maintenance covenant with a 4.50x threshold implying an ample headroom for the next 12 months.

As of 1 July 2015, the weighted average interest rate was 11.1% for all loans, including FX-denominated.

FINANCIAL MANAGEMENT & SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Within the first 9 months of 2015, HMS Group successfully refinanced c. Rub 5.9 billion and currently is at a negotiation stage to refinance a part of its credit portfolio with maturity in 2016.

General notes:
** Differences in calculations can occur due to the rounding-off rule*

WEBCAST TO DISCUSS 6 MONTHS 2015 IFRS FINANCIAL RESULTS

TUESDAY, 6 October 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: 3449183
Title: HMS Group 6 months 2015 IFRS results

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

http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=3093

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.