HMS Group announces management statement and financial highlights for 9 months 2016

Moscow, Russia – December 14, 2016 – 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 9 months ended September 30, 2016.

Financial highlights 9 months 2016:

- Revenue of Rub 30.3 billion grew by 14 percent yoy
- EBITDA[1] stood at Rub 4.7 billion, down 20 percent yoy, with EBITDA margin at 15.5 percent
- Operating profit decreased to Rub 3.0 billion, down 30 percent yoy; operating margin at 9.8 percent
- Profit for the period totalled Rub 1.2 billion, down by 41 percent yoy

- Total debt declined to Rub 16.3 billion
- Net debt decreased by 13 percent yoy to Rub 13.4 billion
- Net debt-to-EBITDA LTM ratio amounted to 2.14x
- Return on capital employed LTM (ROCE)[2] decreased to 12.1 percent

Operational highlights 9 months 2016:

- Backlog increased by 2 percent yoy to Rub 26.5 billion
- Order intake increased by 32 percent yoy and amounted to Rub 32.7 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.

[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)).

Kirill Molchanov, CFO and Co-founder of HMS Group, commented, that

"Regarding the guidance announced at a conference call in October, we want to update our guidance figures. Based on the third quarter results we confirm our guidance on EBITDA of Rub 5.7-6 billion and assume that revenue can be a bit lower than Rub 43-45 billion, previously announced."

OPERATING REVIEW

BACKLOG & ORDER INTAKE

The Group built its backlog at Rub 26,523 million, up 2 percent yoy based on growth of the oil & gas equipment and EPC business segments.

Backlog, Rub mn	2016 9m	2015 9m	Change yoy
Industrial pumps	9,457	9,600	-1%
Oil & Gas equipment	9,408	7,191	31%
Compressors	4,910	7,442	-34%
EPC	2,748	1,877	46%
Construction	1,379	729	89%
Project and design	1,369	1,148	19%
Total	**26,523**	**26,111**	**2%**

In the pump business segment, the backlog stood almost flat at Rub 9,457 million because of stable inflow of contracts signed for recurring products and stable revenue recognition. In the oil & gas equipment business segment, the backlog increased by 31 percent yoy to Rub 9,408 million due to a substantial increase in the number of signed contracts for recurring production. The compressors' backlog declined to Rub 4,910 million because of revenue recognition including two large contracts signed in 3Q 2015 and 1Q 2016. The EPC backlog's dynamics turned positive 46 percent yoy and increased to Rub 2,748 million due to better performance of the both sub-segments.

Order intake[3] for 9 months 2016 grew by 32 percent yoy and equalled Rub 32.7 billion, based on growth of all segments except the compressors. Order intake for Pumps increased by 5 percent yoy only because of more orders for recurring products. The Oil & gas equipment grew almost as much as two and a half times thanks to both large contracts and recurring business. The growth was due to the latter factor to a greater extent as the Oil & gas equipment business segment signed almost twice as many recurring contracts as in the comparative period.

This year, HMS Group signed two large contracts worth Rub 4.8 billion and two medium-sized contracts worth Rub 1.7 billion in the oil & gas business segment, and one large Rub 2.8 billion contract in the compressors segment.

[3] According to management accounts

Compressors showed negative dynamics because the large contract signed in the reporting period (Rub 2.8 bn) was smaller than the large contract signed in the comparative period (Rub 3.5 bn) combined with fewer recurring contracts signed. In the EPC segment, TGS (the construction sub-segment) signed a number of new contracts.

Order intake, Rub mn	2016 9m	2015 9m	Change yoy
Industrial pumps	10,870	10,324	5%
Oil & gas equipment	14,657	6,195	137%
Compressors	4,585	6,893	-33%
EPC	2,622	1,381	90%
Construction	1,348	-	n/a
Project and design	1,275	1,381	-8%
Total	**32,735**	**24,791**	**32%**

GROUP PERFORMANCE

Group revenue grew by 14 percent yoy and reached a new high of Rub 30,316 million.

In terms of revenue mix, this growth was supported by recurring products. Large contracts decreased by 11 percent yoy. In contrast, recurring business grew by 26 percent yoy, where machine-building recurring products[4] increased one-third compared to the nine months of 2015.

In terms of segments, the compressors business segment was the driver of the revenue increase demonstrating extraordinary growth.

Rub mn	2016 9m	2015 9m	Change yoy
Revenue	30,316	26,642	14%
EBITDA	4,688	5,873	-20%
EBITDA margin	15.5%	22.0%	

In contrast, EBITDA declined by 20 percent yoy to Rub 4,688 million. The decline in the share of large contracts led to the decline in EBITDA. In the previous period, there was a high basis of comparison also, because of the performance of the oil & gas equipment segment.

In the pumps business segment, the majority of EBITDA was generated by recurring business only. The same picture was demonstrated by the oil & gas business segment. Also, there was a high basis of comparison for the oil & gas equipment segment in the previous nine months. The compressors segment increased its share in the large contracts portfolio as well as in the company’s EBITDA. All the above factors – lower margins for standard pumps and oil & gas equipment together with still lower margins of large contracts in the compressors segment - resulted in EBITDA margin of 15.5 percent vs 22.0 percent in the comparative period.

[4] Machine-building products include pumps, oil & gas equipment, and compressors, and exclude EPC

Cost of sales increased by 24 percent yoy to Rub 22,589 million compared with Rub 18,248 million. This growth outpaced revenue (+14% yoy) driven by materials and components (+26% yoy). The main reason was a change in the prevailing type of contracts, which became more material-intensive. Labour costs stayed unchanged, even decreased as a share of revenue to 14 percent from 16 percent.

Cost of sales, Rub mn	2016 9m	2015 9m	Change yoy	Share of 2016 9m revenue	Share of 2015 9m revenue
Cost of sales	**22,589**	**18,248**	**24%**	**74.5%**	**68.5%**
Materials and components	15,416	12,212	26%	50.8%	45.8%
Labour costs	4,351	4,338	0%	14.4%	16.3%
Construction & design and engineering services of subcontractors	1,042	753	38%	3.4%	2.8%
Depreciation and amortization	989	964	3%	3.3%	3.6%
Others	791	-18	na	2.6%	-0.1%

Total operating expenses grew by 15 percent yoy to Rub 4,769 million (9m15: Rub 4,153 million), whilst as a percentage of revenue staying flat at 16 percent.

Distribution and transportation expenses increased by 36 percent yoy and amounted to Rub 1,282 million. As a percentage of revenue they also grew, to 4.2 percent from 3.5 percent for 9 months 2015, where an increase in transportation expenses and other expenses made a major contribution to this. Transportation expenses grew by 42 percent, faster than revenue, due to a change in the structure of dispatched goods (growth of the number of heavy and oversized products) as well as more deliveries to remote northern regions of Russia.

General and administrative expenses grew by 6 percent to Rub 3,125 million. In the meantime, general and administrative expenses as a percentage of revenue decreased to 10 percent from 11 percent in the comparative period.

SG&A expenses[5] grew by 14 percent yoy to Rub 4,407 million (9m15: Rub 3,878 million) in line with revenue, staying flat as a share of revenue at 15 percent.

Operating expenses, Rub mn	2016 9m	2015 9m	Change yoy	Share of 2016 9m revenue	Share of 2015 9m revenue
Distribution and transportation	1,282	943	36%	4.2%	3.5%
General and administrative	3,125	2,935	6%	10.3%	11.0%
Other operating expenses	362	275	31%	1.2%	1.0%
Total operating expenses	**4,769**	**4,153**	**15%**	**15.7%**	**15.6%**
Finance costs	1,385	1,517	-9%	4.6%	5.7%

Operating profit declined by 30 percent to Rub 2,959 million compared with Rub 4,242 million because of the lower EBITDA. Operating margin decreased to 9.8 percent (9m2015: 15.9 percent).

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

Finance costs declined by 9 percent yoy to Rub 1,385 million. Foreign exchange revaluation more than compensated for 8 percent yoy growth of interest expenses.

As of October 1, 2016, average interest rate grew to 12.8 percent (01.10.2015: 11.6 percent), where Ruble-denominated only reached 13.0 percent (01.10.2015: 12.7 percent). The reasons for the growth were the same as in the previous reporting period: a Euro-denominated loan refinanced with a Ruble-denominated one combined with the replacement of "old" before-the-crisis loans at lower interest rates with more expensive ones.

Profit for the period decreased by 41 percent yoy to Rub 1,244 million from Rub 2,107 million for the period of nine months 2015, due to lower operating profit.

SEGMENT PERFORMANCE

The reportable operating segments derive their revenue primarily from the manufacture and sale of industrial pumps, oil and gas equipment, compressors, oil and gas construction and other products and services. From 2015 onwards, HMS Group reports a total segment's revenue, which includes external revenue and intersegment revenue, for more consistent demonstration of the performance of each segment.

Industrial pumps Business Segment[i]

The industrial pumps business segment's revenue declined by 8 percent yoy to Rub 11,780 million. EBITDA decreased by 45 percent yoy to Rub 1,683 million. As a result, EBITDA margin decreased to 14.3 percent.

The main reason for the lower financials were weak results of the first quarter due to a decline in the share of large high-marginal contracts in revenue and EBITDA. Growth of prices of materials and components made of metal also affected the segment's financials.

Financial performance in the second and third quarter (2Q16: revenue Rub 4.6 bn, EBITDA Rub 622 mn; 3Q16: revenue Rub 4.1 bn, EBITDA Rub 773 mn) speaks for easing of the situation in comparison with the first quarter (revenue Rub 3.1 bn and EBITDA Rub 287 mn).

Industrial pumps, Rub mn	2016 9m	2015 9m	Change yoy
Revenue	11,780	12,828	-8%
EBITDA	1,683	3,057	-45%
EBITDA margin	14.3%	23.8%	

Oil & Gas equipment Business Segment[ii]

Revenue decreased by 8 percent yoy to Rub 11,014 million and EBITDA was down by 18 percent yoy to Rub 2,051 million. From the perspective of recurring business, the oil & gas equipment segment continued to deliver very strong results. There was more than a half decrease in large contracts in the oil & gas business segment executed, but recurring business substantially substituted them. EBITDA margin declined to 18.6 percent because of a larger share of contracts for such products. And margins for recurring oil & gas equipment are higher than in the previous periods due to a higher level of innovation and added value of new equipment launched.

Oil & Gas equipment, Rub mn	2016 9m	2015 9m	Change yoy
Revenue	11,014	11,933	-8%
EBITDA	2,051	2,511	-18%
EBITDA margin	18.6%	21.0%	

Compressors Business Segment[iii]

Revenue continued its growth to Rub 6,674 million. EBITDA jumped to Rub 656 million in comparison to Rub 48 million EBITDA in the previous year. EBITDA margin increased to 9.8 percent vs. 2.3 percent in the compared period. The main reason for such performance is growing portfolio of large contracts in the compressors segment.

Compressors, Rub mn	2016 9m	2015 9m	Change yoy
Revenue	6,674	2,145	211%
EBITDA	656	48	1257%
EBITDA margin	9.8%	2.3%	

Engineering, Procurement and Construction (EPC) Business Segment[iv]

The EPC business segment still has negative results. Revenue was down to Rub 1,517 million from Rub 1,988 million. EBITDA dropped to minus Rub 78 million from plus Rub 170 million due to poor performance of the both sub-segments (project & design and construction). These weak results are the direct consequence of a shrinking contracts portfolio because of, among other things, tougher pricing of oil & gas majors and competition in the stagnating market for a small number of orders. As a result, EBITDA margin turned negative 5.1 percent from positive 8.6 percent last year.

EPC, Rub mn	2016 9m	2015 9m	Change yoy
Revenue EPC	1,517	1,988	-24%
EBITDA EPC	-78	170	-146%
EBITDA margin EPC	-5.1%	8.6%	

FINANCIAL REVIEW

Cash flow performance, Debt and Liquidity position

HMS Group generated net operating cash inflow of Rub 1,448 million because of a notable decrease in working capital.

HMS invested Rub 1,346 million in products and equipment during nine months of 2016. The growth of capital expenditures by 43 percent yoy affected Net cash from investing activities, the net outflow of which increased to Rub 1.4 billion (9m15: Rub 0.9 billion).

The company continues execution of its Localization project[6], where Rub 633 million was invested in the reporting period. If excluding these import-substitution investments, HMS raised its maintenance capex by 33 percent yoy to Rub 713 million (9m2015: Rub 536 million). In 2014-2015, the company reduced its capital expenditures due to the economic crisis in Russia and imposed sanctions, and today increases them to a "normal" level required for further development.

Despite increased investment activities, free cash flow[7] improved by Rub 3.0 billion and amounted to Rub 11 million.

Cash flow performance, Rub mn	2016 9m	2015 9m	Change yoy
Net cash from /(used in) operating activities	1,448	-2,029	na
Net cash used in investing activities	-1,437	-940	53%
Free cash flow (FCF)	**11**	**-2,969**	**na**
Net cash used in financing activities	-551	-186	197%
Cash & cash equivalents	2,860	1,355	111%

Cash & cash equivalents were up to Rub 2.9 billion as of September 30, 2016.

Working capital decreased by 21 percent yoy to Rub 9,611 million because of large contracts' execution.

Rub mn	2016 9m	2015 9m	Change yoy
Working capital	9,611	12,231	-21%
Working capital / Revenue LTM	23%	32%	
Capital expenditures	1,346	942	43%

Total debt decreased by 3 percent yoy to Rub 16,282 million. Net debt decreased by 13 percent yoy to Rub 13,422 million. Because of lower EBITDA LTM, the Net debt-to-EBITDA LTM ratio increased to 2.14x.

Debt & Liquidity, Rub mn	2016 9m	2015 9m	Change yoy
Total debt	16,282	16,755	-3%
Long-term debt	12,590	10,817	16%
Short-term debt	3,692	5,938	-38%
Cash & cash equivalents	2,860	1,355	111%
Net debt	13,422	15,400	-13%
Net debt / EBITDA LTM	2.14	1.90	

[6] Development of manufacture competences for high capacity oil transport pumps and nuclear pumps in Russia, Orlov region (Livny) at HMS Livgidromash

[7] Free cash flow (FCF) = Net cash (used in) / 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.

Refinancing process of 2016 is completed. Debt of Rub 3.4 billion matures in 2017 and today the company has enough liquidity to make full repayment of this debt. The primary target for 2017 will be refinancing of 2017 and a part of 2018.

As of December 1, 2016, average interest rate for Ruble-denominated loans decreased to 12.4 percent (01.10.2016: 13.0 percent) and to 12.3 percent for all loans, including FX-denominated.

At the end of 2016, the company expects working capital and total debt to grow because of new large contracts signed, followed by a sharp reduction in working capital in the first quarter of 2017 because of an inflow of payments on completion of a number of large contracts as well as advance payments on several large contracts to be signed in the foreseeable future.

SIGNIFICANT EVENTS & FINANCIAL MANAGEMENT AFTER THE REPORTING DATE

In October 2016, HMS Group signed a Special Investment Contract (SIC) with the Russian Federation. The signed SIC will provide HMS with a package of measures of state support for execution of the second stage of the company's localization project to develop manufacture competences for high-capacity oil refining, oil transport and nuclear pumps in Livny, the Orel region. The key advantages of concluding the contract include admission of state customers to procure products manufactured based on a SIC without holding a tendering process, if the product supplier is included in the register of single suppliers.

At the beginning of December 2016, HMS Group was assigned by Fitch Ratings a long-term credit rating "B+" with a "Stable outlook".

Financial management
In November 2016, HMS Group signed a number of credit agreements with Raiffeisenbank totaling Rub 2.9 billion. These include refinancing of its previously signed credit lines of Rub 1.8 billion at lower interest rates maturing in 2019 instead of 2017 as well as a new 5-year uncommitted loan facility with 3-year tranches in the amount of Rub 1.1 billion and with maturity in 2021.

HMS GDRS

During the period from October 1, 2016 up to and including December 13, 2016, HMS Group repurchased 16,187 of its global depositary receipts ("GDRs"). The share repurchases are part of the Company's buy-back program. In total, HMS Group purchased 865,869 GDRs (3.70 percent of its issued share capital).

Dividends
The Board of Directors of HMS Group at its meeting held on December 5, 2016, approved a payment of interim dividends in the amount of Rub 3.41 per one ordinary share, i.e. Rub 17.05 per one global depositary receipt. January 12, 2017 was fixed as a Record date, and the payment will be made on January 26, 2017. Total interim dividend will amount to Rub 400 million.

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WEBCAST TO DISCUSS 9 months 2016 IFRS FINANCIAL RESULTS

Wednesday, 14 DECEMBER 2016
6.00 PM (MOSCOW) / 3.00 PM (London) / 4.00 PM (CET) / 10.00 AM (NY)

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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Title:	HMS Group 9 months 2016 IFRS results

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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, email: 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.

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

[ii] 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.

[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 ordinary specifications, and compressor-based integrated solutions.

[iv] 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.