

## HMS Group announces management statement and financial highlights for nine months 2017

Moscow, Russia – December 11, 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 9 months ended September 30, 2017.

### Financial highlights 9m 2017:

- Revenue: Rub 31.4 bn (+4% yoy)
- EBITDA<sup>1</sup>: Rub 5.0 bn (+6% yoy), EBITDA margin of 15.9%
- Operating profit: Rub 3.4 bn (+15% yoy), operating margin up to 10.9%
- Profit for the period: Rub 1.7 bn (+33% yoy), net income margin of 5.3%
  
- Total debt: Rub 16.5 bn (+1% yoy)
- Net debt: Rub 12.7 bn (-5% yoy)
- Net debt-to-EBITDA LTM ratio: 1.9x

### Operational highlights 9m 2017:

- Backlog: Rub 42.6 bn (+60% yoy)
- Order intake: Rub 51.0 bn (+61% yoy)

### Guidance 2017 update:

- **Revenue:** slightly lower than previously announced Rub 48 billion
- **EBITDA:** closer to the upper-end of Rub 6.2-6.8 billion

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<sup>1</sup> EBITDA is defined as operating profit/loss from continuing operations adjusted for other operating income/expenses, depreciation and amortisation, amortisation of government grants, 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.

## OPERATING REVIEW

### BACKLOG & ORDER INTAKE

**Backlog** grew to Rub 42.6 billion (+60% yoy). All the four business segments demonstrated growth. And the main driver was the oil & gas equipment and projects business segment (OGEP).

Backlog, Rub mn	2017 9m	2016 9m	Change yoy
Industrial pumps	10,519	9,457	11%
Oil & Gas equipment and projects	22,337	10,777	107%
Compressors	5,202	4,910	6%
Construction	4,505	1,379	227%
<b>Total</b>	<b>42,562</b>	<b>26,523</b>	<b>60%</b>

The pumps backlog increased by 11% yoy to Rub 10.5 billion based only on recurring business.

In the OGEP business segment, the backlog grew by 107% yoy because of growth of the number of large contracts.

The compressors increased by 6% yoy because of a large contract signed in the reporting period.

The construction grew by 227% yoy to Rub 4.5 billion due to two large contracts signed.

Order intake, Rub mn	2017 9m	2016 9m	Change yoy	2017 3Q	2016 3Q	Change qoq
Industrial pumps	12,221	10,870	12%	3,535	4,880	-28%
Oil & gas equipment	28,471	15,932	79%	5,395	3,734	44%
Compressors	5,934	4,585	29%	875	612	43%
Construction	4,356	246	1,668%	3,952	1	na
<b>Total</b>	<b>50,982</b>	<b>31,633</b>	<b>61%</b>	<b>13,756</b>	<b>9,227</b>	<b>49%</b>

**Order intake**<sup>2</sup> reached Rub 51.0 billion (+61% yoy) due to a number of large contracts signed in the reporting period, including:

- **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);

Recurring business stood unchanged at Rub 24 billion.

<sup>2</sup> According to management accounts

**Note to HMS' Backlog and Order intake:**

The contract to deliver oil & gas equipment for reconstruction of a gas processing plant, signed in 2Q 2017 (Rub 23.3. bn) is still subject to uncertainty. The company hasn't received any advance payments, and even hasn't started any work. HMS isn't certain that the execution of this project will start in the nearest future.

The company doesn't include the contract in its Backlog and Order intake. If added, Backlog would grow by 148% yoy to Rub 65.9 billion and Order intake would increase 135% yoy to Rub 74.3 billion.

Operating performance adj., Rub mn	2017 9m	2016 9m	Change yoy
Backlog, where	65,897	26,523	148%
OGEP segment	45,672	10,777	324%
Order intake, where	74,317	31,633	135%
OGEP segment	51,806	15,932	225%

**GROUP PERFORMANCE**

Revenue increased by 4% yoy and amounted to Rub 31.4 billion due to contribution from the OGEP business segment.

EBITDA grew by 6% yoy to Rub 5.0 billion because of an increase in the compressors and the pumps business segments. EBITDA margin increased to 15.9% versus 15.5% in the previous year.

Rub bn	2017 9m	2016 9m	Change yoy	2017 3Q	2016 3Q	Change qoq
Revenue	31,411	30,316	4%	10,062	9,953	1%
EBITDA	4,987	4,688	6%	1,849	1,732	7%
EBITDA margin	15.9%	15.5%		18.4%	17.4%	

Recurring business as well as large contracts generated the same share of the Group's revenue as it was one year ago. In contrast, in terms of EBITDA, large contracts generated more than last year (+23% yoy). And this resulted in higher EBITDA margin.

Cost of sales, Rub mn	2017 9m	2016 9m	Change yoy	Share of 2017 9m revenue	Share of 2016 9m revenue
<b>Cost of sales</b>	<b>22,931</b>	<b>22,589</b>	<b>2%</b>	<b>73.0%</b>	<b>74.5%</b>
Materials and components	15,928	15,416	3%	50.7%	50.8%
Labour costs	3,724	3,388	10%	11.9%	11.2%
Construction and design and engineering services of subcontractors	811	1,042	-22%	2.6%	3.4%
Depreciation and amortization	964	989	-2%	3.1%	3.3%
Others	1,503	1,754	-14%	4.8%	5.8%

**Cost of sales** grew by 2% yoy to Rub 23.0 billion due to an increase in materials and components (+3% yoy) and labour costs (+10% yoy). At the same time, cost of sales decreased to 73% as a share of revenue.

Rub mn	2017 9m	2016 9m	Change yoy	Share of 2017 9m revenue	Share of 2016 9m revenue
Distribution and transportation	1,299	1,282	1%	4.1%	4.2%
General and administrative	3,444	3,125	10%	11.0%	10.3%
<b>SG&amp;A expenses</b>	<b>4,742</b>	<b>4,407</b>	<b>8%</b>	<b>15.1%</b>	<b>14.5%</b>
Other operating expenses	330	362	-9%	1.0%	1.2%
<b>Operating expenses ex. Cost of sales</b>	<b>5,072</b>	<b>4,769</b>	<b>6%</b>	<b>16.1%</b>	<b>15.7%</b>
Finance costs	1,340	1,385	-3%	4.3%	4.6%

**SG&A expenses**<sup>3</sup> increased by 8% yoy, and as a share of revenue grew to 15.1% from 14.5%.

**Operating expenses excl. cost of sales** grew by 6% yoy. As a share of revenue they also increased, to 16.1%. The main reason was an increase in labor costs due to budgeted growth in wages and hired personnel.

**Distribution and transportation expenses** grew by 1% yoy to Rub 1.3 billion. As a share of revenue, they stayed unchanged at 4%.

**General and administrative expenses** grew by 10% yoy to Rub 3.4 billion due to labour costs' increase. As a share of revenue, general and administrative expenses grew to 11% from 10%.

**Operating profit** grew by 15% yoy to Rub 3.4 billion from Rub 3.0 billion. Operating margin increased to 10.9% from 9.8% for 9 months of the comparative period.

Finance costs, Rub mn	2017 9m	2016 9m	Change yoy
<b>Finance costs</b>	<b>1,340</b>	<b>1,385</b>	<b>-3%</b>
<i>Interest expenses</i>	<i>1,338</i>	<i>1,491</i>	<i>-10%</i>
<i>Foreign exchange loss, net</i>	<i>0</i>	<i>(106)</i>	<i>-100%</i>
<i>Finance lease expenses</i>	<i>2</i>	<i>0</i>	<i>na</i>
Interest rate, average	10.2%	12.8%	
Interest rate Rub, ave	10.4%	12.9%	

**Finance costs** decreased by 3% yoy. The main factor was lower interest expenses (-10% yoy) due to lower interest rates as a result of debt portfolio refinancing. Within one-year period, average rates decreased from 12.8% p.a. to 10.1% p.a.

**Profit for the period** increased 33% yoy to Rub 1.7 billion from Rub 1.2 billion.

<sup>3</sup> SG&A expenses = Selling, General and Administrative Expenses = Distribution and transportation + General and administrative

## BUSINESS SEGMENTS PERFORMANCE

### Industrial pumps<sup>i</sup>

The industrial pumps business segment's revenue increased by 5% yoy to Rub 12.3 billion from Rub 11.8 billion. EBITDA grew by 23% yoy to Rub 2.1 billion. EBITDA margin recovered to 17.1%, which is within a range of pumps' "upper" profitability level.

Industrial pumps, Rub mn	2017 9m	2016 9m	Change yoy	2017 3Q	2016 3Q	Change qoq
Revenue	12,346	11,778	5%	4,418	4,062	9%
EBITDA	2,114	1,718	23%	832	787	6%
EBITDA margin	17.1%	14.6%		18.8%	19.4%	

### Oil & Gas equipment and projects (OGEP)<sup>ii</sup>

The OGEP business segment's revenue grew by 26% yoy to Rub 15.0 billion from Rub 12.0 billion based on both recurring business and large projects. In contrast, EBITDA was down 27% yoy to Rub 1.5 billion due to a decrease in EBITDA, generated by recurring business as well as large contracts.

EBITDA margin declined to 9.7%, on the back of several factors, where the main ones were a fall in yields and inclusion of GTNG in the OGEP business segment.

OGEP, Rub mn	2017 9m	2016 9m	Change yoy	2017 3Q	2016 3Q	Change qoq
Revenue	15,037	11,977	26%	4,615	4,179	10%
EBITDA	1,460	1,986	-27%	811	895	-9%
EBITDA margin	9.7%	16.6%		17.6%	21.4%	

### Compressors<sup>iii</sup>

Revenue was unchanged at Rub 6.7 billion. EBITDA grew by 67% yoy to Rub 1.1 billion because of better order intake, enhanced operating efficiency and due to one-off economy derived from a large contract's execution. EBITDA margin increased to 16.5%.

In 3Q 2017, EBITDA margin returned to its sustainable profitability level of 10-11% range.

Compressors, Rub mn	2017 9m	2016 9m	Change yoy	2017 3Q	2016 3Q	Change qoq
Revenue	6,650	6,674	0%	1,461	2,012	-27%
EBITDA	1,096	656	67%	158	215	-27%
EBITDA margin	16.5%	9.8%		10.8%	10.7%	

### Construction<sup>iv</sup>

Construction delivered weak results both in terms of revenue and EBITDA. However, 3Q delivered better results due to new contracts signed in the reporting period.

Construction, Rub mn	2017 9m	2016 9m	Change yoy	2017 3Q	2016 3Q	Change qoq
Revenue	447	557	-20%	164	31	435%
EBITDA	(120)	(49)	145%	(29)	(96)	-70%
EBITDA margin	-26.7%	-8.7%		-17.7%	-313.1%	

## FINANCIAL REVIEW

### CASH FLOW PERFORMANCE

**Working capital** increased by 2% yoy to Rub 9.8 billion from Rub 9.6 billion due to execution of large contracts, but as a share of revenue stayed stable at 23%.

Working capital & Capex, Rub mn	2017 9m	2016 9m	Change yoy
Working capital	9,775	9,611	2%
Working capital / Revenue LTM	23%	23%	
Capital expenditures	1,404	1,346	4%

HMS Group generated positive **operating cash flow** of Rub 3.1 billion, which was 111% yoy higher than last year.

**Capital expenditures** grew by 4% yoy to Rub 1.4 billion. The company plans to finalize the Localization project in 4Q 2017.

Increased operating cash flow and decreased investment activities resulted in positive **free cash flow**<sup>4</sup> of Rub 1.7 billion.

Cash flow performance, Rub mn	2017 9m	2016 9m	Change yoy
Net cash from operating activities	3,056	1,448	111%
Net cash used in investing activities	(1,365)	(1,437)	-5%
<b>Free cash flow (FCF)</b>	<b>1,691</b>	<b>11</b>	<b>na</b>
Net cash (used in) / from financing activities	(955)	(551)	73%
Cash & cash equivalents	3,727	2,860	30%

<sup>4</sup> 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 POSITION

**Total debt** grew by 1% yoy to Rub 16.5 billion from Rub 16.3 billion.

**Net debt**, in contrast, decreased by 5% yoy to Rub 12.7 billion. The **Net debt-to-EBITDA LTM ratio** was down to 1.9x due to lower Net debt combined with higher EBITDA LTM in the reporting period.

Leverage, Rub mn	2017 9m	2016 9m	Change yoy
Total debt	16,469	16,282	1%
<i>Long-term debt</i>	<i>12,939</i>	<i>12,590</i>	<i>3%</i>
<i>Short-term debt</i>	<i>3,529</i>	<i>3,692</i>	<i>-4%</i>
Net debt	12,742	13,422	-5%
Net debt / EBITDA LTM	1.9x	2.1x	

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

### FINANCIAL MANAGEMENT

As of November 1, 2017, average interest rate decreased to 10.2% compared to 12.2% at the beginning of 2017.

### CONTRACTS

In November, HMS Group announced that it has signed two contracts worth c. 4 billion rubles for construction and installation works at clients' oil & gas facilities in Western Siberia.

Recently, the company announced the signature of 2 contracts worth more than 34 million USD for delivery of pumping equipment for Kudankulam Nuclear Power Plant, India. According to the contracts' terms, HMS Group will deliver various types of safety-significant pumping units for the 3rd and the 4th power plant units. These contracts are a follow-up to contracts, signed in 2016, still under execution and contracts, completed in 2004-2006 for delivery of main pumping equipment to the 1st and the 2nd units of this nuclear power plant.

### DIVIDENDS AND HMS GDRS

During the period from October 6, 2017 up to and including December 11, 2017, HMS Group purchased 31,026 of its global depository receipts ("GDRs"). As of today, HMS Group has purchased 1,033,887 GDRs (4.41 percent of its issued share capital).

On December 7, 2017, the Annual General Meeting of Shareholders approved payment of interim dividends in respect of 9 months 2017 in the amount of 5.12 rubles per ordinary share, i.e. 25.6 rubles per one GDR. Dividends will be paid on January 26, 2018, with record day on January 12, 2018.

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**WEBCAST TO DISCUSS 9 MONTHS 2017 IFRS FINANCIAL RESULTS**

**TUESDAY, 12 DECEMBER 2017**

5.00 PM (MOSCOW) / 2.00 PM (London) / 3.00 PM (CET) / 9.00 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

To participate in the conference call, please dial in:

Russia Local: +7 495 213 1767

UK Local: +44 (0)330 336 9105

UK Toll Free: 0800 368 0935

US Local: +1 323 794 2093

US Toll Free: 888 394 8218

Conference ID: 4754965

Title: HMS Group 9 months 2017 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=5197>

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](mailto: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 depository receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

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1.3. Payments to governments



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<sup>i</sup> 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.

<sup>ii</sup> 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.

<sup>iii</sup> 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.

<sup>iv</sup> The construction provides construction works for projects for customers in the oil upstream and midstream, gas upstream.