

## **HMS Group announces management statement and financial highlights for 6 months 2018**

HMS HYDRAULIC MACHINES & SYSTEMS GROUP PLC (the “HMS Group”, “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 six months ended June 30, 2018.

### **Financial highlights 6 months 2018:**

- Revenue: Rub 20.3 bn (-5% yoy)
- EBITDA<sup>1</sup>: Rub 3.3 bn (+6% yoy), EBITDA margin 16.3%
- Operating profit: Rub 2.1 bn (+4% yoy), operating margin up to 10.1%
- Profit for the period: Rub 961 mn (+16% yoy), net income margin 4.7%
  
- Total debt: Rub 18.5 bn (+15% yoy)
- Net debt: Rub 13.5 bn (0% yoy)
- Net debt-to-EBITDA LTM ratio: 1.93x

### **Operational highlights 6 months 2018:**

- Backlog: Rub 37.3 bn (-5% yoy)
- Order intake: Rub 18.4 bn (-43% yoy)

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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

**Backlog**<sup>2</sup> didn't change much in comparison to the last year (-5% yoy) but decreased vs. the beginning of 2018. The underperformance of the oil & gas equipment and projects business segment was due to fewer large contracts signed in the reporting period. All other business segments grew based both on large integrated contracts and recurring business.

Backlog, Rub mn	2018 6m	2017 6m	Change yoy
Industrial pumps	15,744	11,128	41%
Oil & Gas equipment and projects	9,682	21,610	-55%
Compressors	8,614	5,652	52%
Construction	3,263	849	284%
<b>Total</b>	<b>37,303</b>	<b>39,239</b>	<b>-5%</b>

### ORDER INTAKE

**Order intake**<sup>3</sup> decreased Rub 18.4 billion (-43% yoy). All business segments of HMS declined.

The pumps segment decreased to Rub 8.4 billion due to recurring business. The oil and gas equipment and projects segment was down to Rub 5.5 billion because of absence of large contracts signed in the reporting period. The compressors declined to Rub 4.7 billion because of a decline in large contracts though recurring business grew.

In terms of contracts' mix, the drop was mainly attributable to fewer large contracts signed in the reporting period.

Order intake, Rub mn	2018 6m	2017 6m	Change yoy	2018 2Q	2018 1Q	Change qoq
Industrial pumps	8,444	8,686	-3%	4,214	4,229	0%
Oil & gas equipment	5,516	17,989	-69%	2,079	3,436	-39%
Compressors	4,666	5,059	-8%	1,672	2,995	-44%
Construction	(226)	404	-156%	27	(253)	-111%
<b>Total</b>	<b>18,401</b>	<b>32,138</b>	<b>-43%</b>	<b>7,992</b>	<b>10,408</b>	<b>-23%</b>

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

<sup>3</sup> According to management accounts

## GROUP PERFORMANCE

Revenue decreased by 5 percent yoy to Rub 20.3 billion.

EBITDA was up by 6 percent yoy to Rub 3.3 billion. The oil & gas equipment and projects segment was the main contributor to the company's EBITDA growth.

Rub bn	2018 6m	2017 6m	Change yoy	2018 2Q	2018 1Q	Change qoq
Revenue	20,343	21,349	-5%	11,618	8,726	33%
EBITDA	3,319	3,138	6%	2,240	1,080	107%
EBITDA margin	16.3%	14.7%		19.3%	12.4%	

In terms of contracts' type, revenue from the recurring business declined by 20 percent yoy. Large contracts advanced 39 percent yoy. EBITDA from the recurring business decreased by 49 percent yoy, but EBITDA, generated by large contracts, compensated for that decline.

As a result, EBITDA margin grew to 16.3% from 14.7% in the comparative period.

Cost of sales, Rub mn	2018 6m	2017 6m	Change yoy	Share of 2018 6m revenue	Share of 2017 6m revenue
<b>Cost of sales</b>	<b>14,664</b>	<b>15,961</b>	<b>-8%</b>	<b>72.1%</b>	<b>74.8%</b>
Materials and components	9,049	11,372	-20%	44.5%	53.3%
Labour costs	2,852	2,491	14%	14.0%	11.7%
Construction and design and engineering services of subcontractors	751	456	65%	3.7%	2.1%
Depreciation and amortization	747	641	17%	3.7%	3.0%
Others	1,266	1,001	27%	6.2%	4.7%

**Cost of sales** was 8 percent yoy down to Rub 14.7 billion because of less materials and components required (-20% yoy) due to the change in the product mix. As a percentage of revenue, the cost of sales also decreased, from 75% to 72%.

As a result, **gross profit** grew to Rub 5.7 billion (+5% yoy) and gross margin reached 27.9% vs. 25.2% for 6 month 2017.

Rub mn	2018 6m	2017 6m	Change yoy	Share of 2018 6m revenue	Share of 2017 6m revenue
Distribution and transportation	933	899	4%	4.6%	4.2%
General and administrative	2,585	2,359	10%	12.7%	11.1%
<b>SG&amp;A expenses</b>	<b>3,519</b>	<b>3,258</b>	<b>8%</b>	<b>17.3%</b>	<b>15.3%</b>
Other operating expenses	104	152	-32%	0.5%	0.7%
<b>Operating expenses ex. Cost of sales</b>	<b>3,623</b>	<b>3,410</b>	<b>6%</b>	<b>17.8%</b>	<b>16.0%</b>
Finance costs	772	930	-17%	3.8%	4.4%

**SG&A expenses<sup>4</sup>** increased by 8 percent yoy, and as a share of revenue grew to 17.3% from 15.3%.

**Operating expenses excl. cost of sales** grew by 6 percent yoy with a share of revenue of 17.8% due to growth of labor costs.

**Distribution and transportation expenses** grew by 4 percent yoy to almost Rub 1.0 billion, mainly due to growth of labour costs and social taxes. As a share of revenue, distribution and transportation expenses demonstrated minor change, to 4.6% from 4.2%.

**General and administrative expenses** grew by 10 percent yoy to Rub 2.6 billion due to combined growth of labour costs and social taxes. This growth was mainly attributable to the long-term incentive program and increased salaries. As a share of revenue, general and administrative expenses grew to 12.7% due to quarterly volatility of revenue.

**Operating profit** increased by 4 percent yoy to Rub 2.1 billion from Rub 2.0 billion, and operating margin was up to 10.1%.

Finance costs, Rub mn	2018 6m	2017 6m	Change yoy
<b>Finance costs</b>	<b>772</b>	<b>930</b>	<b>-17%</b>
<i>Interest expenses</i>	767	930	-17%
<i>Fees for early repayment of loans</i>	5	0	na
<i>Foreign exchange loss, net</i>	(2)	(1)	246%
<i>Finance lease expenses</i>	1	1	-10%
Interest rate, average	8.8%	10.8%	
Interest rate Rub, average	8.9%	10.9%	

**Finance costs** decreased by 17 percent yoy, fully due to a decrease in interest expenses (-17% yoy) due to lower interest rates as a result of debt portfolio refinancing. Average rates decreased from 10.8% p.a. to 8.8% p.a.

**Profit for the period** was up 16 percent yoy to Rub 1.0 billion and profit margin for the period increased to 4.7%.

## BUSINESS SEGMENTS PERFORMANCE

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

The industrial pumps business segment's revenue decreased by 8 percent yoy to Rub 7.3 billion from Rub 7.9 billion. EBITDA was down by 32 percent yoy to Rub 876 million. EBITDA margin declined to 11.9%.

Several factors influenced the segment's underperformance, including less profitable contracts executed in the reporting period and some forced increase in wages.

<sup>4</sup>SG&A expenses = Selling, General and Administrative Expenses = Distribution and transportation + General and administrative

Industrial pumps, Rub mn	2018 6m	2017 6m	Change yoy	2018 2Q	2018 1Q	Change qoq
Revenue	7,334	7,928	-8%	4,337	2,997	45%
EBITDA	876	1,282	-32%	523	353	48%
EBITDA margin	11.9%	16.2%		12.1%	11.8%	

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

The OGEP business segment's revenue grew 7 percent yoy to Rub 11.2 billion, and EBITDA hiked to Rub 2.1 billion due to the low base effect. EBITDA margin increased to 18.6% from 6.2% in the comparative period.

A beneficial mix of contracts combined with a recovered performance of Giprotymenneftegas (GTNG) led to this higher-than-average profitability of the business segment.

OGEP, Rub mn	2018 6m	2017 6m	Change yoy	2018 2Q	2018 1Q	Change qoq
Revenue	11,185	10,423	7%	6,074	5,111	19%
EBITDA	2,084	650	221%	1,257	828	52%
EBITDA margin	18.6%	6.2%		20.7%	16.2%	

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

Revenue declined by 34 percent yoy to Rub 3.4 billion. EBITDA was also down to Rub 336 million. EBITDA margin decreased to 9.9% that is much less than 18.1% in the compared period.

The decline in the segment's profitability was due to the high-base effect last year (execution of a number of high-margin large contracts and one-off economies emerged during their execution) combined with unsteady recognition of large contracts' revenue this year.

Compressors, Rub mn	2018 6m	2017 6m	Change yoy	2018 2Q	2018 1Q	Change qoq
Revenue	3,403	5,188	-34%	1,523	1,880	-19%
EBITDA	336	938	-64%	237	99	138%
EBITDA margin	9.9%	18.1%		15.6%	5.3%	

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

Though construction more than doubled its revenue to Rub 806 million, its profitability is in negative territory.

Construction, Rub mn	2018 6m	2017 6m	Change yoy	2018 2Q	2018 1Q	Change qoq
Revenue	806	283	185%	423	382	11%
EBITDA	(161)	(90)	79%	(40)	-122	-67%
EBITDA margin	-20.0%	-32.0%		-9.4%	-31.8%	

## FINANCIAL REVIEW

### CASH FLOW PERFORMANCE

**Working capital** stood stable at Rub 10.0 billion, keeping its share of revenue in the normal range of 22-25%.

It grew compared to an unusually low level of working capital at the beginning of 2018 (Rub 8.2 bn) and declined in comparison to April 1, 2018 (Rub 11.5 bn). The reason for such fluctuations was inflows and outflows related to large contracts.

Working capital & Capex, Rub mn	2018 6m	2017 6m	Change yoy
Working capital	9,990	10,008	0%
Working capital / Revenue LTM	23%	24%	
Capital expenditures	792	764	4%

**Capital expenditures** increased by 4 percent yoy to Rub 792 million.

HMS Group generated a **negative operating cash flow** of Rub 749 million compared to a positive cash flow of Rub 1.7 billion last year, due to the growth of working capital for 6 months 2018 vs. almost stable level of working capital for 6 months 2017. That led to a **negative free cash flow**<sup>5</sup> of Rub 1.5 billion.

Cash flow performance, Rub mn	2018 6m	2017 6m	Change yoy
Net cash (used in)/from operating activities	(749)	1,675	-145%
Net cash used in investing activities	(735)	(739)	-1%
<b>Free cash flow (FCF)</b>	<b>(1,483)</b>	<b>937</b>	<b>-258%</b>
Net cash from/(used in) financing activities	1,750	(1,506)	-216%
Cash & cash equivalents, at the end of the period	4,913	2,434	102%

### DEBT POSITION

**Total debt** increased by 15 percent yoy to Rub 18.5 billion from Rub 16.0 billion.

**Net debt** was almost unchanged at Rub 13.5 billion. The **Net debt-to-EBITDA LTM ratio** decreased to 1.93x due to the large EBITDA.

Level of net debt and its dynamics are correlated to working capital and its dynamics.

<sup>5</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.

Leverage, Rub mn	2018 6m	2017 6m	Change yoy
Total debt	18,462	16,018	15%
<i>Long-term debt</i>	<i>17,245</i>	<i>14,905</i>	<i>16%</i>
<i>Short-term debt</i>	<i>1,217</i>	<i>1,113</i>	<i>9%</i>
Net debt	13,549	13,584	0%
Net debt / EBITDA LTM	1.93x	2.07x	

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE & FINANCIAL MANAGEMENT

Recently, HMS Group announced the signing of a Rub 1.8 billion contract to deliver a compressor-based equipment for a gas booster station at an oil and gas condensate field in Russia. The project will be completed in 2021.

### FINANCIAL MANAGEMENT

As of September 1, 2018, average interest rate decreased to 8.7% compared to 9.8% at the beginning of 2018.

### DIVIDENDS AND HMS GDRS

During the period from June 7, 2018 to and including October 1, 2018, HMS Group hasn't purchased any of its global depositary receipts ("GDRs"). As of today, HMS Group has purchased 1,076,887 GDRs (4.60 percent of its issued share capital).

## 2018 GUIDANCE

### Revenue and EBITDA:

HMS Group expects **2018FY revenue** to grow year-on-year to **Rub 47-53 billion**. At the same time, the company forecasts lower **EBITDA (Rub 6.2-6.4 bn)** and profitability.

The pumps business segment will demonstrate better results in the 2<sup>nd</sup> half of 2018. The oil & gas equipment and projects business segment will be the main driver of the Group's FY2018 performance though with lower profitability in the period remaining. The compressor business segment is also expected to show significantly better results in the 2<sup>nd</sup> half of 2018.

### Finance costs:

The company doesn't expect a further decrease in interest expenses due to the fact that the process of interest rates' decrease has stopped in Russia.

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**WEBCAST TO DISCUSS 6 MONTHS 2018 IFRS FINANCIAL RESULTS**

**Date: Tuesday, October 2, 2018**

**Time: 5.00 PM (MOSCOW) / 3.00 PM (London) / 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

To participate in the conference call, please dial in:

Russia Local: +7 495 646 9190

UK Local: +44 (0)330 336 9411

UK Toll Free: 0800 279 7204

US Local: +1 646 828 8193

US Toll Free: 800 394 8218

Conference ID: 2357237

Title: HMS Group 6 months 2018 IFRS results

**Webcast meeting:**

To access the live event, click on the link:

<https://webcasts.egs.com/hmsgroup20181002>

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

We will share materials on [HMS' investor website](#) ahead of the webcast.

**Contacts:**

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 depositary receipts ("GDRs") are listed under the symbol "HMSG" on the London Stock Exchange.

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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.