16.06.2014

HMS Group announces interim management statement and financial highlights for the three months ended March 31, 2014

Moscow, Russia – June 16, 2014 – 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 interim management statement and financial highlights for the three months ended March 31, 2014. The financial data are based on management accounts only and are not reviewed by external auditors.

In December 2013, HMS Group sold 67.3% shares in Trest Sibkomplektmontazhnaladka (SKMN). The Group's performance for 3m 2013 excludes the results of SKMN.

3M 2014 HIGHLIGHTS

- Backlog increased by 18% year-on-year to Rub 23,505 million, while order intake declined by 12% year-on-year to Rub 6,692 million for 3m 2014

- Revenue decreased by 12% year-on-year to Rub 6,080 million, showing decrease throughout all business segments, apart from industrial pumps. Revenue taken for the last twelve months (LTM) remained stable year-on-year

- EBITDA[1] totaled Rub 777 million, up 11% year-on-year; EBITDA margin was 12.8% compared to 10.1% last year. EBITDA for 3m 2014 taken for the last twelve months (LTM) showed a minor decrease by 2% year-on-year

- Operating profit reached Rub 207 million, down 17% year-on-year; operating margin stood at 3.4%

- Loss for the period amounted to Rub 311 million for 3m 2014, compared to a loss of Rub 75 million for 3m 2013; loss per share (EPS) was Rub 2.52

- Net debt decreased by 21% year-on-year to Rub 11,156 million, resulting in Net debt-to-EBITDA (LTM) ratio at 2.1x

- Return on capital employed (ROCE) LTM[2] was 14%

---

[1]EBITDA is defined as operating profit/loss adjusted for other income/expenses, depreciation and amortization, impairment of assets, provision for obsolete inventory, provision for impairment of accounts receivable, unused vacation allowance, defined benefits scheme expenses, warranty provisions, provision for legal claims, provision for VAT and other taxes receivable, other provisions, excess of fair value of net assets acquired over the cost of acquisition. This measurement basis excludes the effects 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 plus average equity

Commenting on the results, Artem Molchanov, Managing Director (CEO) of HMS Group, said,

"We started new 2014 with the results similar to those, we saw in the first quarter of 2013. We managed to build a solid Rub 24bn backlog. However, our order intake declined, reflecting absence of new large contracts in our portfolio in the reporting period. Though the Group's profitability in the first quarter of 2014 was at a higher level than in the same period of 2013, achieved 13% EBITDA margin is lower than that we consider to be sustainable for long-term. Reported net loss was largely attributable to non-monetary items such as revaluation of the Groups' foreign exchange liabilities.

The Group's business segments demonstrated mixed performance in the first quarter of 2014. While our key industrial pumps division delivered stable results, our new compressors division generated negative EBITDA, which, we believe, should be taken as a seasonal decline.

We remain cautious about the economic uncertainties around HMS Group, including new risks, arising from the political tensions in Ukraine. Meanwhile, we see new prospects for the Group's further development due to a strategic cooperation agreement with Gazprom Neft, a certification recently acquired by Neftemash from Gazprom as well as Gazprom's investment programme on gas supply to China."

OPERATING REVIEW

The Group's backlog for 3 months 2014 amounted to Rub 23,505 million, up by 18% year-on-year. This growth was attributable to a large contract, signed at the end of 2013 by oil & gas business segment, under which no revenue was yet recognized. The key reason for the backlog decline in the industrial pumps business segment was almost full revenue recognition under the ESPO contracts. The oil & gas equipment business segment showed a solid growth due to the abovementioned large contract. The backlog in compressors business segment experienced a slight decrease in the reporting period. Positive dynamics in the EPC business segment was caused by the performance of the construction subsidiary Tomskgazstroy (TGS), which signed some new contracts at the end of 2013 and in 2014, while the project and design sub-segment built the same backlog as in the first quarter of 2013.

Decline in the order intake[2] by 12% year-on-year to Rub 6,692 million was attributable to decrease in compressors and EPC business segments.

GROUP PERFORMANCE

The Group's revenue for 3 months 2014 decreased by 12% year-on-year to Rub 6,080 million, with revenue from the industrial pumps business segment amounting to Rub 3,477 million or 57% of total Group's revenue. Meanwhile, EBITDA grew by 11% year-on-year to Rub 777 million. As a result, EBITDA margin for 3 months 2014 totaled 12.8%.

[2] Under management accounts

Rub million	**3m 2014**	**3m 2013**	**Change y-o-y**
Total revenue	6,080	6,895	-12%
EBITDA	777	700	11%
EBITDA margin	12.8%	10.1%	263 bps

The Group's cost of sales, which traditionally accounts for over 70% of total revenue decreased by 15% year-on-year from Rub 5,389 million to Rub 4,588 million in line with a revenue decline.

Rub million	**3m 2014**	***% of revenue***	**3m 2013**	***% of revenue***	**Change y-o-y**
Total cost of sales	**4,588**	***76%***	**5,389**	***78%***	**(15)%**
Supplies and raw materials	2,274	*37%*	2,313	*34%*	(2)%
Labour costs	1,511	*25%*	1,421	*21%*	6%
Cost of goods sold	138	*2%*	638	*9%*	(78)%
Other expenses	665	*11%*	1,016	*15%*	(35)%

Key components of cost of sales – supplies and raw materials combined with cost of goods sold – accounted for 40% and 43% of revenue for 3 months 2014 and 2013 respectively.

Labour costs grew both in absolute numbers and as a percentage of revenue due to acquisition of NIITurbokompressor (NIITK) and Noyabrskneftegazproekt (NNGP).

Distribution and transportation expenses were up 7% year-on-year and achieved Rub 306 million for 3 months 2014. As a percentage of revenue, they grew from 4% to 5% in comparable periods. An increase of transportation costs was the major factor behind growth of total distribution and transportation expenses. An increase of transportation costs from 1.3% to 1.8% of revenue was attributable to execution of Turkmenia project on delivery of three water-pump stations.

General and administrative expenses totaled Rub 905 million, 2% lower than for 3 months 2013. As a percent of revenue, they grew from 13% to 15% year-on-year due to revenue decline. Depreciation and amortization, tax and duties and other expenses remained almost flat year-on-year both in absolute and relative numbers.

For 3 months 2014, the Group's operating profit decreased by 17% year-on-year to Rub 207 million.

Interest expenses decreased by 10% to Rub 309 million compared to Rub 345 million for 3 months last year due to debt level decline.

In the reporting period, the Group recorded a foreign exchange loss of Rub 263 million within finance costs versus a foreign exchange gain of Rub 10 million in 2013. This was due to the currency fluctuations in respect of intra-group debts between subsidiaries with different functional currencies and the revaluation of the Group's external FX liabilities. On consolidation, although the intra-group loan is eliminated from the statement of financial position, the related exchange gain or loss recognised in a company's separate financial statements in respect of the forex loan payable survives the consolidation process, so that the gain or loss is also recognised in consolidated profit or loss.

For 3 months 2014, the Group had an income tax benefit of Rub 13 million due to the fact, that some expenses were not deductible for tax purposes.

The Company recorded a net loss of Rub 311 million for 3 months 2014, compared to a net loss of Rub 75 million for 3 months 2013. One of major factors behind the change was a forex loss of Rub 263 million.

SEGMENT PERFORMANCE

<u>Industrial pumps business segment</u>

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

Rub million	**3m 2014**	**3m 2013**	**Change y-o-y**
Revenue	3,477	3,320	5%
EBITDA	513	401	28%
EBITDA margin	14.7%	12.1%	267 bps

The industrial pumps business segment's revenue grew by 5% year-on-year to Rub 3,477 million for 3 months 2014 from Rub 3,320 million for 3 months 2013, while EBITDA increased by 28% year-on-year to Rub 513 million. EBITDA margin stood at a healthy 15%.

The segment's performance in the reporting period was supported by the ESPO, Zapolyarye-Purpe and Turkmenia projects. In the first quarter of 2013, the segment executed only one large-scale ESPO project. Excluding these three projects, industrial pumps enjoyed a 5% growth in EBITDA year-on-year, backed on stable inflow of orders for standard and customized pumps.

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.

Rub million	**3m 2014**	**3m 2013**	**Change y-o-y**
Revenue	1,446	1,894	(24)%
EBITDA	168	297	(43)%
EBITDA margin	11.6%	15.7%	(405) bps

Revenue in the oil & gas equipment business declined by 24% year-on-year for 3 months 2014 to Rub 1,446 million, compared to Rub 1,894 million for 3 months 2013. The segment's EBITDA dropped by 43% year-on-year to Rub 168 million in the reporting period versus Rub 297 million for 3 months 2013. The segment's performance in both periods was supported exclusively by regular business, servicing small and mid-sized orders for standard equipment. Achieved EBITDA margin at 12% for 3 months 2014 is an average margin for that type of business activity.

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 principal products include customized compressors, series-produced compressors built to standard specifications, and compressor-based integrated solutions.

Rub million	**3m 2014**	**3m 2013**	**Change y-o-y**
Revenue	294	751	(61)%
EBITDA	(54)	(44)	(22)%
EBITDA margin	(18.3)%	(5.9)%	(1,238)bps

The results of the compressors business segment for 3 months 2014 are comparable with the results for 3 months 2013. The segment tends to show weak performance at the first quarter, which is expected to improve throughout the year. A decrease of both revenue and EBITDA reflects a usual quarterly volatility of business.

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 upstream and midstream, gas upstream and water utilities sectors.

Rub million	**3m 2014**	**3m 2013**	**Change y-o-y**
Revenue EPC	862	931	(7)%
EBITDA EPC	144	49	194%
EBITDA margin EPC	16.7%	5.2%	1,150 bps

In the reporting period EPC business segment showed a growth in profitability. EBITDA almost tripled year-on-year to Rub 144 million and EBITDA margin achieved 17%. The achieved growth was supported by both sub-segments due to mix of contracts and cost minimization initiatives.

FINANCIAL REVIEW

CASH FLOWS PERFORMANCE

Rub million	**3m 2014**	**3m 2013**	**Change y-o-y**
Net cash from/(used in) operating activities	144	(1,541)	(109)%
Net cash used in investing activities	(160)	(854)	(81)%
Net cash used from financing activities	142	2,094	(93)%
Free cash flow (FCF)	(15)	(2,395)	(99)%

Operating cash flow for 3 months 2014 turned to positive Rub 144 million from negative Rub 1,541 million for 3 months last year as a result of changes in working capital.

Working capital decreased by 42% year-on-year to Rub 5,042 million and comprised 16% of total revenue taken for the last 12 months (LTM) versus 28% for the previous period. Key factor beyond a working capital decline was the optimisation of payables and receivables, payments received under executed large contracts and prepayments on new contracts.

An absence of large M&A deals substantially decreased outflow from investing activities, which equaled to Rub -160 million (-81% year-on-year). Capital expenditures were Rub 219 million for 3 months 2014, down 35%. The decrease in capital expenditures was a result of completion of the investment programme in the industrial pumps business segment.

A decline in net cash from financing activity to Rub 142 million rubles was a result of high base in the previous period attributable to borrowings for M&A financing.

Free cash flow totaled Rub -15 million for 3 months 2014.

DEBT AND LIQUIDITY POSITION

Rub million	**3m 2014**	**3m 2013**	**Change y-o-y**
Total debt	12,857	15,195	(15)%
Long-term debt	8,477	12,765	(34)%
Short-term debt	4,380	2,430	80%
Cash and cash equivalents at the end of the period	1,701	1,045	63%
Net Debt	11,156	14,150	(21)%
Net Debt/LTM EBITDA	2.1	2.6	

The Group's total debt decreased by 15% year-on-year to Rub 12,857 million compared to Rub 15,195 million in the previous period. Since the beginning of 2014, the total debt remained almost at the same level. Over 60% of the total debt was represented by long-term facilities. Debt reduction was a result of managerial efforts on working capital optimisation and large payments received under new and some executing contracts.

Net debt decreased to Rub 11,156 million, while net debt-to-EBITDA taken for the last 12 months (LTM) ratio amounted to 2.1x in line with the bank covenant.

As of May 16, 2014, an average interest rate was 9.6% for all loans, including FX-denominated, and 10.2% for Rub-denominated ones.

Solid liquidity position with Rub 1.2 billion in cash combined with committed unused credit lines of Rub 2.8 billion covered HMS's short-term debt of Rub 4.4 billion.

RECENT DEVELOPMENT

- In May 2014, the Group's subsidiary Neftemash was certified in accordance with the requirements of Gazprom 9001-2012. The certificate indicates that the Group's quality management system conforms to the requirements of Gazprom in respect to project, design and manufacturing of modular and technological equipment, tanks and vessels for oil and gas production, development of oil and gas deposits. Neftemash was included in the list of certified suppliers for Gazprom. HMS Group made one more step towards further cooperation with one of its largest clients.

- Since the beginning 2014, HMS Group signed several contracts for the total amount of Rub 0.5 billion on delivery oil & gas equipment to Iraq within the Group's strategy targeting further expansion in oil & gas Iraqi market.

- In May 2014, HMS Group signed a 5-year strategic cooperation agreement with Gazprom Neft. The agreement deepens strategic cooperation in the field of delivery of oil & gas and pumping equipment, produced by HMS facilities for modernization and development projects of Gazprom Neft. In addition, the document contains regulations regarding the exchange of information on present and upcoming products and solutions of HMS Group and an estimated demand of Gazprom Neft for equipment, technologies and integrated solutions.

FINANCIAL MANAGEMENT

- In March 2014, Standard and Poor's Rating Services affirmed HMS' "B" long-term credit rating (outlook "Stable") and removed CreditWatch Negative, it had placed on the Group in October 2013.

- In May 2014, HMS Group refinanced almost Rub 1 billion with a new 3-year loan.

PRINCIPAL RISKS AND UNCERTANTIES

- HMS Group may be exposed to various political, economic and other risks in its countries of operations (Russia, Ukraine and Belarus). So far though the Group has not been significantly affected by recent developments in Ukraine and the group's Ukrainian assets perform in a usual mode, in the event of a political deterioration in Ukraine, the Group's operations in that country (including export of production to Russia, which is significant part of the Group's integrated solutions), as well as its financial position, could be affected. The extent of this impact is difficult to evaluate.

- In April 2014, the District Court of Nicosia, Cyprus, discharged in full EUR 400 million freezing order against HMS Group and its directors. Meanwhile, HMS Group cannot exclude the risk of further legal disputes, involving the Group and its shareholders. In the case of these ongoing procedures, the Company will continue to defend vigorously its position and will make further announcements regarding any material development.

Conference call information

Monday, 16 June 2014

10.00 AM (EDT) / 3.00 PM (UK) / 4.00 PM (CET) /6.00 PM (MOSCOW)

Moderator:

Vera Timoshenko – Head of IR

Speakers:

Kirill Molchanov – First Deputy General Director, CFO and Co-Founder
Alexander Rybin – Head of Capital Markets

To participate in the audio meeting, please dial in:

Russia Local: 7 495 662 57 93
UK Local: 44 20 7190 1596
UK Toll Free: 0800 358 5256
US Local: 1 480 629 9771
US Toll Free: 1 877 941 1469

Conference ID: 4687375
Title: HMS Group 3 months 2014 IFRS results

Webcast Meeting:

To access the live event, clink on the link:

http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=2303

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

For further information, please contact:

Vera Timoshenko	Nozima Karimova
Head of Investor Relations Tel: +7 (495) 730-66-01 x 1302 ir@hms.ru	Head of Press Service Tel: Tel: +7 (495) 730-66-01 karimova@hms.ru

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.