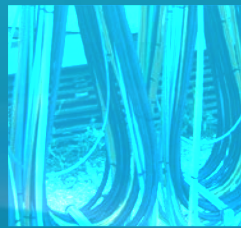




*Evropeyskaya  
Elektrotekhnica*



# ALL ASPECTS

## #OF ENERGY



ANNUAL  
REPORT  
2018



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The Annual Report was pre-approved by the Board of Directors on 17 May 2019

(Minutes No.12-SD/2019 dated 20 May 2019)

Approved by the General Meeting of Shareholders on 27 June 2019

(Minutes No. 5-06/2019 dated 28 June 2019)

The reliability of the data contained in the Annual Report is confirmed by the Company's Auditor.

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# COMPANY PROFILE

PJSC Evropeyskaya Elektrotekhnica offers integrated solutions pertaining to engineering and process systems in industry, construction, and infrastructure - low and medium voltage distribution equipment, low-current systems, lighting systems, industrial electric heat tracing systems, and oil, gas and petrochemical equipment.

**OUR MISSION**

IMPROVE PEOPLE'S QUALITY OF LIFE THROUGH ENTREPRENEURIAL VIGOUR AND ENGINEERING COMPETENCIES AND ITS GROWTH STRATEGY IS AIMED AT THE COMMERCIALISATION OF TECHNOLOGICAL INNOVATIONS.

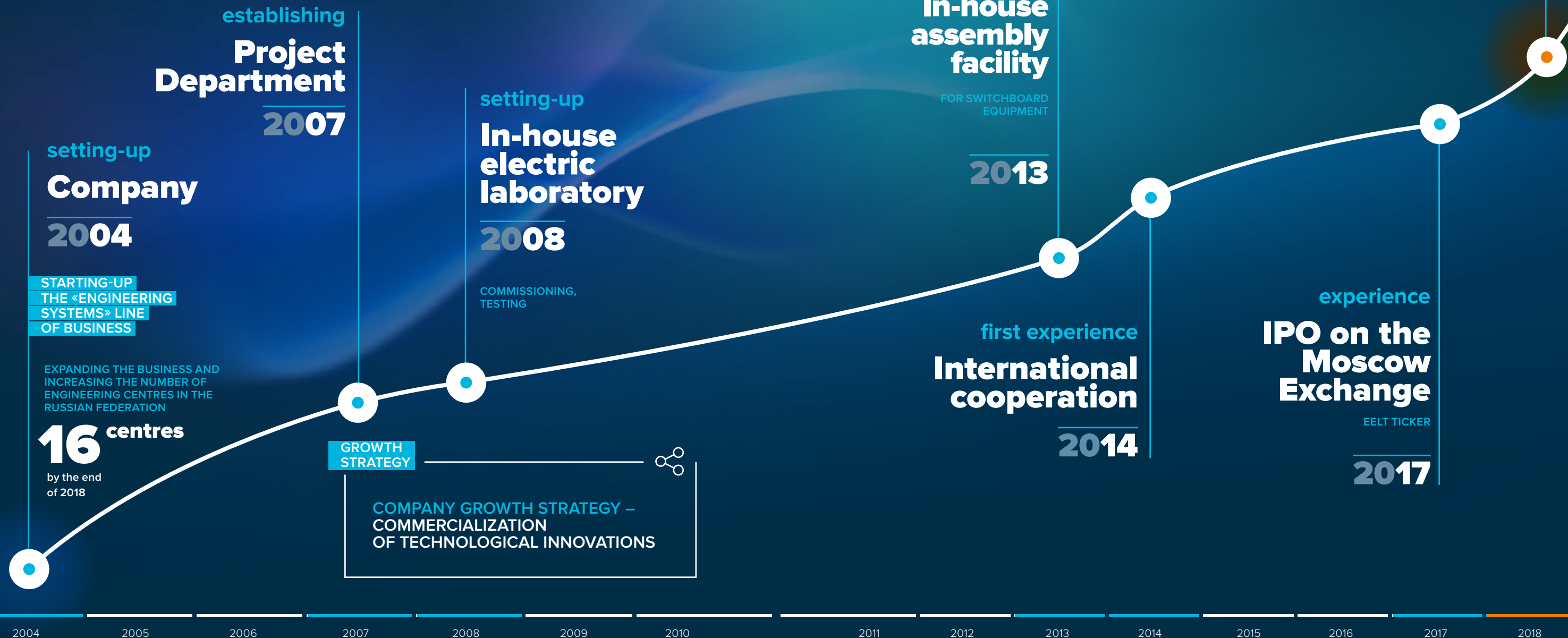
**OUR CLIENTS**

Evropeyskaya Elektrotekhnica's clients are the largest Russian companies: Rosneft, Gazprom, NOVATEK, LUKOIL, SIBUR, and Nizhnekamskneftekhim. Proven track record of success in deliveries for the projects: Power of Siberia, Yamal LNG plant, Smolensk NPP, Data Processing Centre of the Security Council of the Russian Federation, Domodedovo, Sheremetyevo, and Pulkovo airports, etc.

**starting-up**  
**Launching the oil, gas, and petrochemical equipment manufacturing**

**2018**

«TECHNOLOGICAL SYSTEMS»  
LINE OF BUSINESS



launching

**In-house assembly facility**

FOR SWITCHBOARD EQUIPMENT

**2013**

first experience

**International cooperation**

**2014**

experience

**IPO on the Moscow Exchange**

EELT TICKER

**2017**

starting-up

**Launching the oil, gas, and petrochemical equipment manufacturing**

**2018**

«TECHNOLOGICAL SYSTEMS»  
LINE OF BUSINESS

establishing

**Project Department**

**2007**

setting-up

**Company**

**2004**

STARTING-UP THE «ENGINEERING SYSTEMS» LINE OF BUSINESS

EXPANDING THE BUSINESS AND INCREASING THE NUMBER OF ENGINEERING CENTRES IN THE RUSSIAN FEDERATION

**16 centres**

by the end of 2018

GROWTH STRATEGY

COMPANY GROWTH STRATEGY – COMMERCIALIZATION OF TECHNOLOGICAL INNOVATIONS

setting-up

**In-house electric laboratory**

**2008**

COMMISSIONING, TESTING

FOR SWITCHBOARD EQUIPMENT

**2013**

first experience

**International cooperation**

**2014**

experience

**IPO on the Moscow Exchange**

EELT TICKER

**2017**

starting-up

**Launching the oil, gas, and petrochemical equipment manufacturing**

**2018**

«TECHNOLOGICAL SYSTEMS»  
LINE OF BUSINESS

# KEY INDICATORS

## EXPERIENCE

# 15 years

working with leading Russian customers, with domestic and major international vendors

## TEAM

# 350 professionals

balanced high-calibre team<sup>1</sup>

## ASSETS

# 16 in-house engineering centres

in Russia, and Central Asian, Middle Eastern, and North African countries

## PROJECTS

# 497 projects

implemented by the Company (at the end of 2018)

## SHARE OF IN-HOUSE MANUFACTURED PRODUCTS IN THE TOTAL SUPPLIES

# 35%

# 11%

SHARE OF EXPORT DELIVERIES

## CONSOLIDATED REVENUE

# 3,286.7 RUB mln

## EBITDA

# 382.3 RUB mln

## PROFIT FOR THE PERIOD

# 293.1 RUB mln

## GROWTH IN PHYSICAL VOLUMES OF PRODUCTS SHIPPED

# +48%

## GROWTH IN R&D INVESTMENTS

# x 5.0

## INVESTMENT GROWTH

# x 1.8

## INVESTMENT CASE

Evropeyskaya Elektrotehnica combines a distribution centre, engineering divisions, an electrical laboratory, and specialised production operations. The Company is among the largest national distributors of electrical equipment and is an industrial partner of companies that are leaders in the international engineering market.

### RELIABLE PARTNER FOR DOMESTIC AND FOREIGN COUNTRIES

# 750+ 70+

client companies

suppliers

from

from

# 20+

industries

# 20

countries across the world

The Company's revenue has been contracted for the period until

# 2021

 year

### GROWTH STRATEGY

#### Organic growth:

- ▶ expansion of the network of engineering centres,
- ▶ R&D Programme,
- ▶ the release of innovative products,
- ▶ the launch of new production sites

#### Inorganic growth:

- ▶ mergers and acquisitions (M&A) of core assets

#### PARTICIPATION IN THE IMPORT SUBSTITUTION ACTIVITIES

### FOCUS ON THE IMPROVEMENT OF THE PROJECT PORTFOLIO PROFITABILITY

#### FOCUS ON HIGH-PROFIT AREAS AND PROJECTS

#### CONSCIOUS REJECTION OF LOW-MARGIN BUSINESS OPPORTUNITIES

#### CONSTANT DIVERSIFICATION OF THE PROJECT PORTFOLIO, ASSIMILATION OF NEW DIRECTIONS

### A STRONG FINANCIAL POSITION IS THE BASIS FOR FURTHER BUSINESS GROWTH

#### THE OUTPERFORMING GROWTH RATE OF THE COMPANY'S PROFIT

# 246.8

RUB mln cash and cash equivalents available to the Company<sup>2</sup>

#### NO DEBT TO THIRD-PARTY CREDITORS<sup>2</sup>

#### RATING

# BBB-(ru)<sup>3</sup>

ACRA

stable outlook

### DIVIDEND HISTORY AND A CASE OF PUBLICITY IN A RUSSIAN ECONOMY SECTOR NEW TO INVESTORS

# 91.9

RUB mln paid as dividends in 2018

CORPORATE GOVERNANCE SYSTEM IS CONTINUALLY CHANGING

#### ACTIVE INVESTOR RELATIONS PROGRAMME

1. Including the team of the controlled company, LLC ROG-Engineering (Ufa, Republic of Bashkortostan).

2. As of 31 December 2018

3. As of 1 February 2019

# KEY ASSETS and Geographic Reach

## VIDNOE (MR)

Warehouse and production facility with 2 thous. sq. m area

### Production of switchboard equipment

- ▶ Production area: 1 thous. sq. m
- ▶ A wide range of low-voltage complete devices' production
- ▶ Electrotechnical laboratory up to 110 kV

## MOSCOW

### Head Office

- ▶ Corporate Center (PAO)
- ▶ Operations Center
- ▶ Consolidation of contracts base
- ▶ Foreign trade activities

## SAINT-PETERSBURG

Engineering center in the Northwest Federal District

### Competence Center:

- ▶ specialized cable conductor products
- ▶ lighting solutions

## TYUMEN

Engineering center in the Siberian Federal District

## LIPETSK

Engineering center in the Central Federal District

## KAZAN

Engineering center in the Volga Federal District

## TOLYATTI

Engineering center in the South Federal District

## KRASNODAR

Engineering center in the South Federal District

## SAMARA

Engineering center in the Volga Federal District

## BAKU

Company representative office in the Republic of Azerbaijan

## RABAT

Company representative office in the Kingdom of Morocco

## ORENBURG

Engineering center in the Ural Federal District

## UFA

Production of oil and gas equipment

- ▶ Production area: 68 thous. sq. m
- ▶ Entire workflow cycle, wide range of products

## UFA

Engineering center in the Volga Federal District

## ASTANA

Company representative office in the Republic of Kazakhstan

## OMSK

Production of power equipment

- ▶ Production area: 9.5 thous. sq. m
- ▶ High level of automation, up-to-date European equipment
- ▶ Electrotechnical laboratory under 110 kV

## NEFTEYUGANSK

Engineering center in the Siberian Federal District

## NOVOSIBIRSK

Engineering center in the Siberian Federal District

## IRKUTSK

Engineering center in the Siberian Federal District

## BLAGOVESHCHENSK

Company representative office in the Far Eastern Federal District

## REVENUE BREAKDOWN

95%

Electrotechnical market

89%

Domestic sales

5%

Manufacturing of oil and gas equipment

11%

Export

- Head office and engineering centers of the Company in the Russian Federation
- ⊙ Production assets of the Company
- Representative offices of the Company in other countries



# STRATEGIC REPORT

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# STATEMENT by the CEO

**Ilya Kalenkov**  
CEO  
Evropeyskaya Elektrotekhnica



The past year was a challenging but very productive year for our Company. We succeeded to perform the best over all 14 years of the market operations.

The positive operating and financial performance of the Company indicates the successful progressive implementation of our Development Strategy until 2021, which we presented in autumn of 2017 during the initial public offering (IPO) on the Moscow Stock Exchange.

#### **New market opportunities and business growth indicators**

The growth in our supplies to customers in physical terms (+48%) significantly outpaced the growth rates of both the Russian economy as a whole (2018 GDP +2.3%) and our core markets, which allows the Company to gradually increase its market share.

The Company is fully engaged in the biggest-ever renewal and upgrade of the infrastructure and production capacities in Russia and in bordering countries. For example, official figures show that in 2018 the investments in fixed assets in Russia run up by 4.3%. A large amount of work yet remained to be done at the domestic level to cope with the high level of depreciation of fixed assets (47.3% in 2017). In general, one may say that Russia is changing over from the consumption model to the industrial production model.

We are making a significant contribution to the success of hundreds of new construction and renovation projects in industry and in other sectors of the economy. Among the most striking examples of our projects in 2018, I would like to mention equipment supplies to contractors for the construction of the Power of Siberia gas pipeline - Stroygazmontazh and Stroyneftegaz companies. Extensive supplies were made to Peton Group of Companies, which is building Gazprom's liquefied gas plant in the Leningrad Region and the Portovaya compressor station. We supplied engineering products for the Zapsibneftekhim construction project, the largest chemical complex, run by Sibur Holding. As for the electricity supply market, in 2018 we completed the equipping of the Slavyanskaya substation (220 kV) in Western Siberia, manufactured and supplied equipment of our make to the civil infrastructure facilities of the Far East, designed and constructed three substations for Rosneft's drilling contractors.

We provided supplies for the development of fields and processing facilities of Novatek, LUKOIL, Bashneft, RussNeft, and Rospan International, as well as for oil and gas companies from Uzbekistan, ERIELL and ENTER Engineering. Our Company is a member of Rosneft's "Unmanned fields" programme to create fully automated field sites.

The main drivers of the engineering market in 2018, as in the last five to six years, are the high-tech markets of the oil, gas and petrochemical industries, as well as precision engineering. The launch of the Programme for the modernisation of thermal power plants in Russia (CSA-2 (capacity supply agreement)) calls for a new large-scale demand for engineering solutions in the energy sector.

The ongoing profitable growth of our business is fuelled by a number of factors.

- ▶ Constant focus on wide diversification of the customer base and expansion of the federal network of engineering centres, ensuring geographical proximity to the projects of our customers.
- ▶ As of the end of 2018, the Group was running 497 projects through 16 regional engineering centres on a nationwide scale.
- ▶ Increasing the types and volumes of products of our own make.
- ▶ The range of customers interested in using our engineering equipment - switchboard equipment based on Schneider Electric, DKC, and Rittal components (more than 80 customers), packaged transformer substations for voltage under 35 kV (16 customers), industrial electric heat tracing systems (more than 50 customers), and lighting equipment (21 customers).
- ▶ Successful entry into the market of innovative processing equipment along with the launch of the business of the Group's subsidiary - LLC ROG-Engineering. The Company develops, designs, and manufactures equipment for oil, and gas and petrochemical industries. In 2018, our customer base comprised about 30 customers from Russia and Uzbekistan. The interest in this equipment is sparked by highly favourable opportunities for high-tech import substitution and obtaining solutions that were originally adopted for Russian raw materials, local climatic conditions of operation, within the oil and gas business realities. To increase the flexibility of our offer to customers, we are exploring the possibility of leasing equipment, with the involvement of the leaders of the Russian leasing market.
- ▶ Behind the successful launch of LLC ROG-Engineering, our Group of Companies sees even wider diversification of business not only on the industry-related basis, as is the case with the supply of engineering systems (with all their high functional diversity), but also in regards to new revenues generated from a fundamentally different category of products - process equipment.
- ▶ Continuation of the R&D Programme in each of our in-house manufacture segments. The Company successfully commercialises its own engineering innovations in both key areas of activity - in the electrical segment and in the manufacturing of oil and gas equipment. It is gratifying to see how the high market potential of new developments begins to virtually transform into additional revenues and profits of the Company.



## THE COMPANY'S HIGHER FINANCIAL RESULTS HIGHLIGHT THE SUCCESSFUL IMPLEMENTATION OF THE DEVELOPMENT STRATEGY

At the end of 2018, the Company's revenue increased by 26.6% to RUB 3,286.7 mln. The net profit reached RUB 293.1 mln (up 2.1 times, year-on-year).

We are escalating the Company's revenue while increasing profit margins. In the reporting year, net income margins grew to 8.9% (5.2% in 2017), while return on equity rose to 47.4%, compared with 35.7% a year earlier.

We are striving to scale up the business while continuing to develop the Company without external financing.

Thus, the adherence to the Strategy-2021, favourable macroeconomic conditions, and a powerful trend in the development of the Russian industrial potential allow for business growth at a double-digit rate, without compromising profitability.

## STRATEGY AND DEVELOPMENT PROSPECTS

We rely on the positive expectations of the Company's business development in 2019 and in the longer run. This is promoted by a wide range of factors.

The external factors include the positive macroeconomic environment in the country, active investment programmes in key sectors of the domestic economy, large-scale government programmes to upgrade and expand infrastructure, to substitute imports, and digitise the economy.

We are placing a greater deal of focus on several areas: the constant expansion of the order portfolio with traditional and new customers, the continuation of our own R&D Programme, the effective development of relations with key vendors of the engineering market, the further bringing of LLC ROG-Engineering subsidiary to rated production output, the expansion of our high-tech exports to Middle Eastern, Persian Gulf, Central and Southeast Asian, and North African countries.

## APPRECIATION

It is of high importance to underscore the predominant contribution of the Company's employees to its successful and dynamic development. Hundreds of successful projects, thousands of difficulties cleared, striving for best results in solving the tasks of Customers, whereby winning their trust and confidence in our Company, - these are actual results of the day-to-day tireless efforts of all Company's offices across the country.

On behalf of the Company's management, I express deep gratitude to our employees who actively identify and use new business opportunities and, ultimately, increase the value of the Company's business for all of its stakeholders.

# THE PROJECTED exponential growth of EBITDA in the coming years

## INNOVATIVE SOLUTIONS FOR OIL REFINING AND POWER GENERATION INDUSTRY

With its hard-hitting R&D Programme, the Company created a full line of advanced equipment, which is commercially successful in the Russian and foreign markets:

- ▶ petroleum treatment unit ([see more details](#));
- ▶ desulfurisation unit (for petroleum products);
- ▶ octane number increase unit;
- ▶ facility for deep refining of fuel oil;
- ▶ the block of fuel oil preparation for power and hot-water boilers, furnaces for industrial purposes.

These units can generate monthly added value in the amount of RUB 80 to 150 mln (when processing about 10 thousand tonnes of oil or petroleum products).

## PETROLEUM TREATMENT UNIT

Using this unit to pre-refine oil increases the proportion of light oil products produced during oil refining from the initial level of 50% to 70–80%.

This solution significantly increases the business margin of a small refinery or an oil depot that are willing to acquire a secondary oil processing plant but are limited in investment capital.

- ▶ Production rate: 10 thousand tonnes of oil per month (in practice; i.e. 2/3 of the maximum equipment capacity)
- ▶ Service life: 20 years
- ▶ Current status: deliveries to customers have been started.
- ▶ The format for cooperation with operators - leasing the unit from Evropeyskaya Elektrotehnica.

For more information see here: [link](#) (slides 23 to 27).





## THE R&D PROGRAMME OUTPUTS: INNOVATIONS FOR THE OIL AND GAS SECTOR

### Power Substation for Oil and Gas Fields

Vector-M packaged transformer substation for the conversion and distribution of power for consumers in oil and gas fields (for example, for mud pumps).

Rating: 2,500 kVA.

Primary voltage: 6 kV.

Secondary voltage: 0.69 kV.

Unique modification:

- ▶ Mobile-based
- ▶ Reinforced vandal-proof container,
- ▶ Arctic mechanical impact resistance; climatic version: KhL1,
- ▶ Accommodates an automated process control package, allowing to integrate the substation into the dispatching and process control system,
- ▶ II fire-resistance rating
- ▶ A powerful forced ventilation system that provides a predetermined operating temperature mode for all elements of the substation, including two frequency converters with an output of 1,100 kW.

Service life: 30 years.

Current status: deliveries to customers have been started.

More information can be found at [Evropeyskaya Elektrotekhnica website](#)



# 2018 HIGHLIGHTS

## EXECUTING LARGE CONTRACTS, BUILDING CLOSER CUSTOMER RELATIONSHIPS

2Q 2018 - licenses were obtained to supply equipment and work at the facilities of Rosatom State Corporation (the right for production and installation operations in the first and second NPP zones).

May 2018 - electrical equipment was certified in the Centre of Competence of PJSC SIBUR Holding.

May 2018 - cabling and wiring products worth over RUB 600 mln were supplied to JSC RN-Snabzhenie.

June 2018 - in-house equipment was supplied for the construction of a new combined oil refining unit as part of the large-scale modernisation of Gazpromneft-MNPZ.

June 2018 - a transformer substation made for PJSC Kazanorgsintez was successfully tested and transferred to the Customer.

September 2018 - a project for the installation and commissioning of a large media wall system was delivered by the order of the super-regional shopping mall LETO in St. Petersburg.

2018 - industrial electric heat tracing systems were supplied for gas pipelines under the Power of Siberia project of PJSC Gazprom.

2018 - cable support systems, lighting equipment, cable penetrations, and switchboard equipment were supplied for the ZapSibNeftekhim Plant Construction Project in Tobolsk operated by SIBUR Holding.

2018 - integrated supplied of lighting equipment for the facilities of Karusel federal trading network of X5 Retail Group were started.

2018 - supplies of engineering equipment for two new terminals being built at the Khabarovsk Airport (Novy) and at the Balandino Airport (Chelyabinsk) were started.

2018 - TKhK Cable plant, part of Evropeyskaya Elektrotekhnica Group of Companies, successfully passed the technical audit conducted by Sakhalin Energy. TKhK Cable products were cleared for the use in Sakhalin Energy projects.

## SUPPLY

2Q 2018 - LLC ROG-Engineering, a company specialising in the design and manufacture of equipment for oil, gas and petrochemical companies and controlled by European Electrical Engineering, started its operations. The production facilities were put in place, scientific and design, managerial and production workforce vacancies were filled; design documentation for all basic types of ROG-Engineering products was developed, the main product categories were certified by PJSC Rosneft, PJSC SIBUR Holding, an independent audit by PJSC Lukoil, ENTER Engineering (Uzbekistan), and ERIELL (Uzbekistan) was successfully completed.

April 2018 - a large-scale modernisation and double expansion of the production volume of switchboard equipment for industrial applications (assembly of low-voltage complete devices) was carried out.

April 2018 - a new production line for the manufacture of special ITS-CP SMART LED lamps was launched.

May 2018 - industrial electric heat tracing systems went into production and were accredited by the largest oil and gas companies.

## PARTICIPATION IN EXHIBITIONS AND CONFERENCES, STRENGTHENING THE PUBLIC IMAGE

March 2018 - entry into the Franco-Russian Chamber of Commerce and Industry, uniting more than 450 French, Russian, and international companies.

May 2018 - participation in the Oil and Gas Uzbekistan 2018 exhibition: high-tech electrical equipment for the uninterrupted operation of the power systems of petrochemical enterprises, as well as packaged units for oil and gas companies.

June 2018 - participation in the 5th Annual International LNG Congress Russia 2018: presenting innovative packaged equipment for oil and gas producing, oil and gas processing, and petrochemical enterprises.

June 2018 - participation in the MIOGE 2018 exhibition: presenting unique packaged-modular container-type units that are used to separate gas and purify formation water from petroleum products and mechanical impurities.

June 2018 - a victory in the Leader of Import Substitution nomination in the framework of the annual all-Russian award "Leader of Competitive Sales" participated by 450 domestic suppliers from various industries.

October 2018 - participation in the St. Petersburg International Gas Forum: presenting innovative developments for the gas industry - various types of process equipment with 1.5-2x improved characteristics compared with the equipment currently in operation.

October 2018 - participation in the suppliers event held by PJSC TATNEFT in Tatarstan: presenting the capabilities of engineering and process equipment; the electric heat tracing systems were of particular interest.

November 2018 - participation in the Yamal Neftegaz Forum 2018: presenting mobile plants for the development of small and remote fields.

February 2019 - [Event after the reporting date] - Participation in the business assignment of the Franco-Russian Chamber of Commerce in the Republic of Uzbekistan.

February 2019 - [Event after the reporting date] - Participation in the forum "Development of oil and gas fields": presenting mobile plants for the development of small and remote fields.

## CORPORATE DEVELOPMENT

Q2 2018 - the capacities of the engineering centres in Moscow and St. Petersburg were increased: a larger number of employees and higher-performance computing capacities.

Q2 2018 - the capacity of the engineering centre in Ufa was increased, to provide engineering services in the electrical market and due to the launch of the oil and gas business.

May 2018 - a larger office was opened in St. Petersburg.

December 2018 - a number of important internal documents regulating the activities of the Company's bodies were approved: The Regulations on the General Meeting of Shareholders, the updated Regulations on the Board of Directors, and the updated Company's Charter.

2018 - Representative offices of the Company were opened in Lipetsk, Tyumen, and Nefteyugansk.

2018 - Representative offices of the Company were opened in the Republic of Azerbaijan and the Kingdom of Morocco.

## DEVELOPMENT OF VENDORS (SUPPLIERS) RELATIONS

May 2018 - the status and certificate of the industrial partner was received from Schneider Electric (France), a new agreement was signed to increase the procurement plan from this vendor and the credit line from the specified vendor was sevenfold extended.

August 2018 - a direct partnership agreement was concluded with ABB Ltd, the world leader in the field of technologies for the electric power industry and automation, which ensures the most competitive commercial conditions for the use of ABB products and solutions.

October 2018 - Company's employees passed on-job training at DKC (Italy) in Tver.

November 2018 - participation in a seminar of Roxtec (Sweden), the world's leading supplier of universal modular systems for sealing cables and pipes.

December 2018 - The Company began using Atominoprom high-tech flame retardants in its projects.

2018 - an assembly facility in Vidnoye (Moscow region) was successfully certified by ABB corporation.

2018 - an assembly facility in Vidnoye was successfully certified for solutions under 4,000 A based on DKC (Italy) vendor components.

2018 - The Company became the main Russian development partner of Roxtec (Sweden), the leader in the international market of modular systems for cable and tube penetrations, producing this equipment in Russia.

February 2019 - [Event after the reporting date] - a multi-stage selection and certification process was successfully passed to include the Company in Golden Club Prisma - the club of the best partners of Schneider Electric in Russia.

# MACROECONOMIC Environment in the Russian Federation

The key macroeconomic performance indicators of the Russian Federation are on the rise, the consequences of the 2014–2015 crisis are generally resolved.

Indicator	Period	Value	Change, y-o-y <sup>1</sup> , % (unless otherwise stated)	Notes
1. GDP in Russia	2018		+2.3	This indicator showed the maximum increase over the last six years (preliminary estimate, downward revision is possible). Source: Russian Federal Service for State Statistics
2. Industrial production in the Russian Federation	Jan-Oct 2018		+2.8	The main contributors are mining, construction. Source: Russian Federal Service for State Statistics
3. Investments in fixed assets in the Russian Federation	2018	17,595 RUB bln	+4.3	Source: Russian Federal Service for State Statistics (Rosstat)
4. Depreciation of fixed assets in the Russian Federation	2017	47.3%	-0.8 p.p.	The level of 2017 is still very close to the worst level of 49.7% (2014). Source: Russian Federal Service for State Statistics (Rosstat)
5. Electric energy generation <sup>2</sup> in the Russian Federation	2018	1,092 trln kWh	+1.7	The figure reached a record level in the entire Russian and Soviet history (the Soviet high of 1990 was overtopped). Source: System Operator
6. Electrical energy consumption in the Russian Federation	2018	1,076 trln kWh	+1.6	Source: System Operator

### Growth in investment demand in Russia noticeably outpaces growth in the global economy

The growth rate of investment in fixed assets in the Russian Federation at the level of + 4.3% (2018, year-on-year) run ahead of both the growth rate of Russia's GDP (2.3% in 2018) and the growth rate of industrial production (2.8% over January - October 2018). The general economic upswing in the country stimulates the demand for engineering equipment, which is an essential component of any investment programme, regardless of the sector of the economy or form of ownership of companies and organisations.

In 2019, investments in the Russian Federation are projected to rise by 2% (according to the Interfax consensus forecast prepared at the beginning of February 2019)<sup>3</sup>, in 2020 - by 3.5%, while the Ministry of Economic Development of Russia expects investments will rise by 3.1% in 2019 and will reach 7.6% in 2020.

The Russian economy reached record levels of electricity generation and consumption at last year end, as observed even amid the much wider use of energy-saving technologies in investment programmes (compared to the Soviet period), whereby bearing another evidence of a real economic growth in the country.

### High depreciation of fixed assets is still a very urgent issue for Russia.

The depreciation of fixed assets in the Russian Federation at the end of 2017 was estimated at 47.3% (according to Rosstat)<sup>4</sup>. This value is still very close to the worst level of 49.7% recorded in 2014. In addition to the construction of new production facilities, Russian enterprises are forced to heavily invest in the renewal of existing fixed assets, involving advanced engineering and technological solutions.

1. y-o-y - year-on-year.

2. Source: <http://www.yuresk.ru/about/press-service/news/industry-news/12487>

3. Source: <https://www.interfax.ru/business/652970>

4. Source: [http://www.gks.ru/free\\_doc/new\\_site/business/osnfond/STIZN\\_ved.htm](http://www.gks.ru/free_doc/new_site/business/osnfond/STIZN_ved.htm)

## Actual import substitution

Russia continues to implement import substitution programmes or at least to offset imports with local products. For example, Rosseti and FGC, the largest Russian users of electrical equipment, as of 2018 already succeeded in reducing the import ratio in procurement to below 15%. In addition, Rosseti presses for bringing this figure down to 5% by 2030<sup>1</sup>. In the first instance, this trend offers advantageous conditions for those domestic companies of the electrotechnical market, which managed to begin mass production of their own engineering equipment. Evropeyskaya Elektrotehnica is one such company.

A significant trend for the domestic market is an increased number of major customers imposing strong requirements on suppliers of engineering products within the framework of import substitution and the availability of their own production facilities for the admission to participation in procurement procedures. In June 2018, the Company was awarded a nomination the Leader of Import Substitution according to 2017 results in the framework of the annual all-Russian award "Leader of Competitive Sales" participated by 450 domestic suppliers from various industries.

# THE MARKETS

## of Engineering and Process Equipment in Russia: current state and trends

The market of engineering solutions and services in Russia as of 2018 was at a relatively early stage of development and consolidation, unlike with the level reached by Western and Eastern developed economies.

This is true for individual segments of the market - for example, for energy and electricity supply solutions. An eloquent fact: in Russia, there are about 5 thousand organisations engaged in the production and assembly of low-voltage complete devices.

Moreover, engineering is one of the most important sectors and its intensive development can facilitate the transformation of the national economy from the raw material model to the model processing and producing high-tech products/services.

According to the Ministry of Industry and Trade of Russia, the volume of the domestic engineering market was slated to reach RUB 2.8 trln by 2018. From the level of 2013 (RUB 1.5 trln), the market had to grow at an annual rate of 13.3% (CAGR). Simultaneously, the share of EPC(M)-contracts<sup>2</sup> in the home market scheme was supposed to rise to 25-30%.

1. Source: <https://www.vedomosti.ru/business/articles/2018/12/26/790458-tsifrovizatsiya-setei>

2. "EPC (M)" is adopted to denote the following terms of engineering contracts in international practices: Engineering, Procurement, and Construction (Management).

### The Company measures the achieved market volume in 2018 as follows

Indicator	Value, RUB bln	Note
1. Investments in fixed assets in Russia	17,595	Source: Russian Federal Service for State Statistics (Rosstat)
2. <b>Engineering</b> solutions market volume, 10% from [1]	1,760	Company's estimate: Energy and electricity supply market volume
3. <b>Process design</b> solutions market volume <sup>1</sup>	786	Company's estimate: volume of the market of equipment for oil, gas and petrochemical industries
Total [2 + 3]:	2,546	

The profile of the engineering market in Russia is directly dictated by the high importance of key sectors of the domestic economy. According to the Ministry of Industry and Trade of Russia, up to 70% of revenue in industrial engineering accrue to large engineering companies in the oil and gas sector, and about 25% - to electrical energy industry<sup>2</sup>.

Besides, the state controlled market in the Russian Federation is at the stage of formation. The roadmap containing the stages and mechanisms for the development of the domestic industry of engineering and industrial design was approved rather recently - in 2013<sup>3</sup>. The national standard GOST R 57306-2016 "Engineering: terminology and basic concepts in the field of engineerin" intended for the formation and development of the sector of engineering, contracting, and document development services was introduced in Russia on 1 September 2017<sup>4</sup>.

The assessment of the volume and dynamics of the domestic engineering market is complicated by the lack of adequate official statistics in the Russian Federation. Improving the quality of the state statistical monitoring system and new information on the engineering market made available to Rosstat and useful for market participants should ensure the identification of economic activities related to engineering and industrial design, listed in OKVED2 (Russian National Classifier of Types of Economic Activity) and OKPD2 (Russian Classification of Products by Economic Activities).

Since 2014, the intensive development of the domestic market of process equipment has been significantly boosted by Western countries sanctions against the Russian Federation. Restricting access to advanced foreign technologies - primarily in the oil and gas sector - clearly highlighted the need to restore the country's technological sovereignty. Domestic design organisations and local equipment manufacturers for the first time in the modern history of the Russian Federation received such a significant "window of opportunity" - both in financial terms and in terms of the expected protracted sanctions restrictions imposed on our country. For Russian manufacturers of process equipment, the latter factor represents not only the possibility of short-term incomes, but the return to the national producer of control over a significant share in domestic market in the long term, the potential to generate income and profits from in-house developments and during the period after they achieve desired payback.

We also have to admit that the engineering market in the Russian Federation remains informationally closed. Evropeyskaya Elektrotehnica is still the only example of a public, information-transparent company in the domestic engineering market.

1. The calculation procedure: a) solve for 23.2% of [1] - the share of the total investment in fixed assets in the Russian Federation (2016) attributable to the extraction of fossil fuels and coke, petroleum products, and chemical industries (source: [http://www.gks.ru/free\\_doc/doc\\_2017/invest.pdf](http://www.gks.ru/free_doc/doc_2017/invest.pdf)); b) subtract RUB 150 bln of investment in the coal industry from [a] (source: <http://www.finmarket.ru/news/4938385>); c) solve for 20% of [b].

2. Yu. Medyanik. Engineering services market in Russia: problems and development prospects // Russian Journal of Entrepreneurship. 2017 T. 18. No. 24. Pages 4221–4234.

3. Order of the Government of the Russian Federation dated 23 July 2013 No. 1300-p "On approval of the action plan (roadmap) in the field of engineering and industrial design".

4. Yu. Medyanik. Engineering services market in Russia: problems and development prospects // Russian Journal of Entrepreneurship. 2017 T. 18. No. 24. Pages 4221–4234.

# MODERNISATION OF CHP

In 2019, the Programme for the modernisation of thermal power plants in the Russia (approved by the Order of the Government of the Russian Federation of January 24, 2019) started.



The launch of this Programme is one of the key events for the Russian engineering market over the past few years. The scale and implementation of projects across the country, until 2035, will provide diverse business opportunities to all Russian participants in the markets of engineering and power engineering. Especially interesting prospects are opening for companies that have launched the production of their own electrical products, which include Evropeyskaya Elektrotekhnica.

THE PERIOD  
OF THE PROGRAMME

2022 → 2035

## KEY PROGRAMME PARAMETERS

PROGRAMME COVERAGE

**40** GW

ASSESSMENT OF THE TOTAL  
MODERNISATION BUDGET

**1.9** trillion  
rubles

TOTAL VOLUME  
OF PROPOSALS FOR A NEW  
ENERGY CAPACITY PROGRAM

**3.5** trillion  
rubles

RATE OF RETURN  
FOR INVESTORS

**14%**

according to the new program  
at selection in 2019 (established  
by Government of the Russian  
Federation).

FIRST SELECTION OF  
CHP PROJECTS FOR  
MODERNISATION

**April**  
**2019**

The first practical step was the competitive selection of projects modernisation of generating equipment for thermal electric stations with a capacity of up to 9.3 GW (commissioning of power facilities in 2022 - 2024).

Energy companies were very actively involved in this program: applications submitted by companies for the tender for commissioning capacities in the amount of 26.1 GW exceeded the quota by 2.8 times.



See more at:  
<http://euroetpao.ru/press/news/775/>

## PROGRAMME OBJECTIVE



FURTHER ATTRACTION OF PRIVATE INVESTMENTS  
IN THE RUSSIAN ENERGY SECTOR



SECURING ORDERS FOR RUSSIAN ENTERPRISES  
OF POWER ENGINEERING



INCREASING THE LEVEL OF LOCALIZATION  
OF FOREIGN ENERGY EQUIPMENT IN RUSSIA

# FACTORS

## determining the further development of key sectors of the economy of the Russian Federation

### ENGINEERING MARKET

- ▶ Growing demand for engineering services against the background of ongoing digitalisation of the economy and current infrastructure upgrade and energy saving projects.
- ▶ The exit of a number of players from the Russian power supply market in the period 2014–2016, who fell down on the sagging market caused by the completion of large-scale investment programmes of capacity supply agreements (CSA) in the power industry.
- ▶ New long-term growth factor for the domestic engineering business - the launch of the Programme for the modernisation of thermal power plants in Russia (CSA-2) - the industry players will feel its positive effect for more than ten years to come, until the 2030s.
- ▶ Increasing requirements for market participants, Russian engineering companies, the need for their compliance with international standards - the ability to work with customers on the basis of EPC and EPC(M) contracts. For example, Gazprom announced that, starting from 2018, its Investment Programme worth over RUB 1 trln - one of the largest in the country - will rely on the EPC-based approach, which will allow the Company to reduce costs and improve the efficiency of the entire gas industry.<sup>1</sup>
- ▶ Highly fragmented market without strong leaders, providing a variety of M&A opportunities.

### ELECTRIC POWER INDUSTRY

- ▶ High level of deterioration of substations, power equipment, and cable systems.
- ▶ Completion of the investment pause period in the electric power industry, transition to the next stage of asset modernisation (large-scale modernisation programme for thermal power plants, requiring about RUB 1.9 trln of investments until 2035; one of the key requirements for these projects: for modernisation, the level of localisation of equipment manufactured in Russia should be 100%).

### OIL AND GAS INDUSTRY

- ▶ Increasing investments in upstream projects (exploration and production); their volume grew up in Russia in 2017 by 38% to USD 58 bln (IEA data, July 2018); investment revival replaced the investment slump during 2014–2016; Globally, the growth rate of investment in production was significantly lower (about 4%), which offers Russian companies an advantage in the ability to maintain and increase oil production amid possible problems with foreign companies.
- ▶ Moderate investment growth will hold up in traditional upstream projects, under which the companies will work to maintain production levels at mature fields (Eastern Siberia); Driven by the commissioning of new fields, the capital expenditures of vertically integrated oil companies will start growing again and this trend will last until 2019.
- ▶ Maintaining a high tax burden for the industry.
- ▶ The emerging transition from the Western sources of financing of large projects in the industry to the Eastern ones (mainly Chinese sources and sources from the Persian Gulf countries).

### PETROCHEMICAL INDUSTRY

- ▶ The industry's high potential is gradually realised through the ready availability of raw materials (naphtha, liquefied hydrocarbon gases, associated petroleum gas, ethane, and condensate), the need to phase-out imports of chemical products on the domestic market, and export opportunities.
- ▶ Before 2014, Russia was an importer of large-tonnage petrochemical products, and then since 2016–2017 it has already changed over to the export of these products.
- ▶ The further development of the Russian industry is focused on medium-tonnage and low-tonnage chemistry, the Russian Federation lags far behind world leaders in this market segment; there are plans to launch about 800 priority products of low-tonnage chemistry in 2020–2022.

1. <https://nangs.org/news/technologies/razvitiie-inzhiniringa-rossiya-vstupayet-v-gonku-za-liderstvo>.

# CONCRETISATION

## of new large-scale generators of demand for engineering in Russia

Further development of the business of Evropeyskaya Elektrotekhnika's Group of companies is directly connected:

- ▶ with the presence specific market demand, which today is actively stimulated by the infrastructure upgrade and development programmes ongoing in Russia, import substitution, digitalisation of the economy,
- ▶ operational efficiency and expansion of the network of engineering centres in Russia (new projects, revenue and marginality of the Group's business),

- ▶ with the ability of the Group's companies to develop, commercialise, and bring to the market innovative solutions in engineering and process equipment (Group business margin).

There is an intensive process of forming a new large-scale demand for engineering and process equipment and related services in Russia and in countries that produce and process oil and gas.

Accordingly, it is important to mention the following major Russian programmes.

Subject of a programme	Duration	Volume of investments from various sources	Programme outreach
A comprehensive plan for the development and expansion of trunk infrastructure in the Russian Federation	2019–2024	RUB 6.3 trln (including about RUB 3 trln - private investments)	690 facilities in all key sectors of the economy of the Russian Federation
Programme for the modernisation of thermal power plants in Russia (CSA-2)	2022–2031	RUB 1.9 trln	41 GW of capacities, including projects in the Far East of the Russian Federation (urban heating plants; about 25% of all heat generation in the Unified Energy System of Russia)
The development of oil and gas chemistry	medium and long term	over USD 40 bln	12 major projects
Major projects with co-financing from largest corporations from the "Belousov's list"	medium and long term	about RUB 81 trln	Russian business filed 981 applications
Projects for the economic development of the Arctic zone of the Russian Federation	2019–2025	USD 86 bln	
Development of infrastructure for the supply of liquefied natural gas in the Russian Federation	2019–2035	over USD 82 bln	Bringing the production of liquefied natural gas to at least 83 mln tonnes, which will make up about 15–20% of the global market (2017: 11.8 mmt); nine major projects
Creation of our proprietary technology for large-capacity gas liquefaction. Roadmap for the localisation of critical LNG equipment manufactured in the Russian Federation	By the mid 2020s	USD 35–40 bln	
Development of transport infrastructure, the formation of the transport framework of the Moscow metropolitan area	2011–2023	About RUB 360 bln annually (budget of Moscow)	Development of the underground metro, construction of the Big Circle Line Development of the Moscow Central Circle  Development of the above-ground metro, construction of Moscow central diameters  Road network development

# PROGRESS

## on the delivery of strategic priorities of the Company

Strategic priorities	Achievements in 2018	Goals for 2019	Risks for the Strategy
<b>Improvement of the project portfolio profitability</b> <ul style="list-style-type: none"> <li>▶ Building a portfolio of projects focused on high-margin segments and projects.</li> <li>▶ Cutting low-margin positions.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The Company still adheres to a new approach to building a portfolio of projects.</li> <li>▶ High diversification of the project portfolio is used.</li> <li>▶ Net profit for 2018 increased by 2.1 times to RUB 293,1 mln.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Expansion of the geographical spread of orders.</li> <li>▶ Market launch of new profitable products.</li> <li>▶ Intensification of export supplies, primarily process equipment for the oil and gas industry.</li> <li>▶ Further increase in net profit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Project risks.</li> <li>▶ Logistics risks.</li> <li>▶ Price, currency, and inflation risks.</li> </ul>
<b>Strengthening leadership through organic growth</b> <ul style="list-style-type: none"> <li>▶ Expansion of the network of engineering centres.</li> <li>▶ Launch of new products.</li> <li>▶ Expansion of sales network, entry to the global markets for the provision of integrated services.</li> <li>▶ Further development of in-house R&amp;D potential.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In 2017, three engineering centres were opened (including in Russia - in the cities of Lipetsk, Tyumen, and Nefteyugansk).</li> <li>▶ The Company has stepped up efforts to find new business opportunities in the Republic of Azerbaijan, in the Kingdom of Morocco.</li> <li>▶ New product groups were launched in all areas of the Company's activities.</li> <li>▶ The Company's R&amp;D investments in 2018 approximated RUB 165 mln (more than fivefold increase)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Opening of new engineering centres; Target-2021 remains the same: to increase the number of centres up to 23.</li> <li>▶ Further expansion of the product range due to our own production base and supply of both engineering and process equipment.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Liquidity risk.</li> <li>▶ Country and political risks.</li> <li>▶ Personnel risks</li> </ul>
<b>Participation in the import substitution programme</b> <ul style="list-style-type: none"> <li>▶ Development of in-house production and scientific potential.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Leader of Import Substitution - in June 2018, the Company's successes were recognised as part of the "Competitive Sales Leader" award: a victory was won among 450 domestic suppliers of various industries.</li> <li>▶ Throughout the year, the Company successfully competed with foreign producers, including outside the Russian Federation.</li> <li>▶ The share of exports in the revenue structure by the end of the year reached 11%.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The Company plans to increase participation in the import substitution programme by offering a wider range of services and solutions, mostly pertaining to process equipment.</li> <li>▶ The target remains the same: to increase the share of exports up to 15–20% by 2021</li> </ul>	<ul style="list-style-type: none"> <li>▶ Liquidity risk.</li> <li>▶ Compliance risks.</li> <li>▶ Project risks</li> </ul>

Strategic priorities	Achievements in 2018	Goals for 2019	Risks for the Strategy
<b>Maximisation of profitability for shareholders</b> <ul style="list-style-type: none"> <li>▶ Sustainable growth through a rational approach to the development of capital costs and high-margin projects.</li> <li>▶ Development through internal financing without borrowed funds.</li> <li>▶ Distribution of the Company's revenues among shareholders through dividends.</li> </ul>	<ul style="list-style-type: none"> <li>▶ During the successful IPO, the Company raised additional funds, which is used to implement Strategy-2021.</li> <li>▶ The Company adheres to the principles of financial policy – growth through internal financing.</li> <li>▶ The Company is guided by the Dividend Policy adopted in September 2017.</li> <li>▶ The first dividend payments in the amount of RUB 91.8 mln were made in 2018 from the net profit earned by the Company in 2017 (which amounted to 68.1% and 21.5% of the net profit of the Group of Companies according to international financial reporting standards and Russian accounting standards, respectively). Dividends of 2017 were determined in the amount of RUB 0.15 per ordinary share of the Company (before dividend income tax)</li> </ul>	<ul style="list-style-type: none"> <li>▶ A balanced financial policy.</li> <li>▶ At the end of 2018, the Company intends to allocate at least 20% of net profit to dividends according to international financial reporting standards, in line with the adopted Dividend Policy</li> </ul>	<ul style="list-style-type: none"> <li>▶ Project risks.</li> <li>▶ Liquidity risk.</li> <li>▶ Country and political risks</li> </ul>
<b>Constant attention to corporate governance</b> <ul style="list-style-type: none"> <li>▶ Compliance of the Company's activities with mandatory standards of corporate governance and disclosure of information.</li> <li>▶ Constant work to improve corporate governance and upgrade the quality of information disclosure.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Two independent directors are actively working at the Board of Directors of the Company.</li> <li>▶ The Regulation on the General Meeting of Shareholders was approved.</li> <li>▶ A new version of the Regulations on the Company's Board of Directors was approved.</li> <li>▶ A new version of the Company's Charter was approved.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improvement of the corporate governance system, commitment to comply with the standards and to correspond to the best practices of Russian issuers.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Compliance risks.</li> <li>▶ Country and political risks</li> </ul>
<b>Maintenance of high standards of the quality of work performed and strict compliance with the terms of licenses, permits, and available admissions</b> <ul style="list-style-type: none"> <li>▶ Building an effective system to monitor the compliance with the terms of license agreements, permits, admissions, and requirements of Russian standards</li> </ul>	<ul style="list-style-type: none"> <li>▶ During the reporting year, the Company's pool of licences and certificates was expanded, there was no violation of license agreements, permits, and available admissions</li> </ul>	<ul style="list-style-type: none"> <li>▶ The Company intends to closely monitor compliance with existing licensing agreements, permits, and admissions.</li> <li>▶ In 2019, the Company plans to obtain new certification and licenses</li> </ul>	<ul style="list-style-type: none"> <li>▶ Compliance risks.</li> <li>▶ Personnel risks</li> </ul>

# BUSINESS MODEL

The Company is building a system of efficient commercialisation of engineering innovations generated within the business and having high market potential.



Evropeyskaya Elektrotekhnica's Group of companies is a profitable business, with wide diversification by industry and geographical affiliation of the client base

## PARTICIPATION IN ALL STAGES OF VALUE CREATION IN TARGET INDUSTRIES

### PROPRIETARY ENGINEERING

federal network of engineering centres

2018, actual 2021, target

**16** → **23**

### PROPRIETARY PRODUCTION

of engineering and technological equipment

### COMPLETE DELIVERIES AND TURNKEY SOLUTIONS

### GUARANTEE SERVICE

## IMPLEMENTATION OF ELECTRICAL COMPONENTS AND MATERIALS

Proprietary production:

- ▶ Transformer substations
- ▶ MV cells
- ▶ Switchboard equipment (under 6,300 A)
- ▶ Cabling and wiring products
- ▶ Industrial electric heating systems
- ▶ Non-standard lighting systems
- ▶ Equipment of complex industry solution

## INTEGRATED SOLUTIONS

- ▶ Low voltage solutions
- ▶ Medium voltage solutions
- ▶ Electric heat tracing systems
- ▶ Lighting systems

## USE OF SOLUTIONS AND ELEMENT BASE FROM LEADING INTERNATIONAL AND RUSSIAN VENDORS

Schneider Electric, ABB, DKC, Lighting technology, John Zinc, others



## ENGINEERING SYSTEMS

Comprehensive services for the fabrication of energy and electricity supply systems, electric lighting and low-current systems at facilities for any purpose, as well as industrial electric heating systems



## TECHNOLOGICAL SYSTEMS

Design, development, manufacture and supply highly effective modern block equipment for oil and gas, oil and gas processing and petrochemical enterprises



### LLC ROG-ENGINEERING

Since 2018

Production of equipment for oil, gas and petrochemical industry

- ▶ Booster pump station
- ▶ Oil and gas treatment unit in block-modular design and container version
- ▶ Mobile complexes for research and development of wells
- ▶ Flare unit
- ▶ Gas separation plants, as well as individual devices and knots

expected to increase its share in the Group revenue's structure

## DIVERSIFIED CUSTOMER BASE

Russian and international markets

2018  
2017  
2016

## REVENUE STRUCTURE BY INDUSTRY

**750+**  
client companies

**20+**  
industries

- Oil and gas sector
- Precision engineering
- Chemical and food industries
- Energy
- Nuclear industry
- Other industry

**46%**

share of TOP-15 clients in the portfolio of orders (by contract value)

**11%**

share of export earnings in the revenue structure of 2018

## SERVICE DIVISIONS AND SYSTEMS

- ▶ LOGISTICS INFRASTRUCTURE BASED ON REGIONAL AFFILIATES;
- ▶ ELECTRICAL LABORATORY WITH VOLTAGE OF UNDER 110 KV;
- ▶ INSTALLATION OF ENGINEERING AND UTILITY SYSTEMS;

- ▶ R&D;
- ▶ ENERGY CONSERVATION AND ENERGY AUDIT;
- ▶ AFTERSALES SERVICE;
- ▶ TENDER DIVISION;

- ▶ LICENSING AND CERTIFICATION DIVISION;
- ▶ ENVIRONMENTAL CONTROL SYSTEM;
- ▶ LABOUR PROTECTION SYSTEM;
- ▶ CORPORATE GOVERNANCE SYSTEM;

- ▶ COMPANY'S PUBLIC DISCLOSURES;
- ▶ BUILDING RELATIONSHIPS WITH INVESTORS AND OTHER STAKEHOLDERS OF THE GROUP

## REVENUE

**3.3**

billion rubles

## WHAT ARE COMPETING COMPANIES LOSING OUT TO PJSC EVROPEYSKAYA ELEKTROTEKHNICA?

- ▶ The Company is aware of the industry characteristics of its Customer and its Product, knows how to utilise it in the best way to solve the problems of the Customer.
- ▶ Being a system integrator with strong engineering and production components, with a large pool of accreditations, licenses and certificates, including industry-related ones (nuclear sector, special services), the Company uses a project-based approach, "turnkey" solution of Customer's tasks.
- ▶ The Company is a vertically integrated manufacturer (from design and manufacture of several equipment categories to their commissioning and field supervision).
- ▶ The Company is going forward without external borrowing and this ensures its financial independence.
- ▶ Tendering is a comfortable procedure for the Company: it outcompetes its peer companies in submitting high-quality applications for tenders and procurement procedures, thereby in many cases securing the contracts.
- ▶ The Company offers to customers attractive financial terms of doing business, which include bank guarantees to ensure participation in tenders, advancing, contract implementation, and guarantee retention.

## WHY CAN COMPETITORS BE MORE SUCCESSFUL THAN THE COMPANY?

- ▶ There are niche players specialising in particular categories of equipment and capable of dumping in certain areas.
- ▶ The outcome of the project-based approach: The Company does not hold significant stocks of products, which may affect the delivery time and requires a comparison of pricing with the conditions of suppliers (vendors).



# KEY Performance Indicators

The management team of the Company controls the implementation of the Strategy based on the changes in key financial and operational indicators. Maintaining positive macroeconomic dynamics of the Russian economy, producing immunity to external adverse sanctions, enhancing the investment process (infrastructural renewal, import substitution, digitalisation, large industry programmes) promote the opportunities for further profitable growth of the Company.

These factors increase the Management confidence in the full and timely implementation of the Strategy-2021. This will also be facilitated by a disciplined approach to building a portfolio of projects, efforts to increase the operational efficiency of the Company.

### The applicability of KPIs to the Company's Strategy, year-on-year changes in indicators, expectations for 2019

Indicator	Indicator's dynamics	Applicability to the Strategy	2018	Future expectations
Revenue	RUB 3,286.7 mln in 2018 vs 2,595 mln in 2017 Up by 26.6%	The key financial indicator used throughout the Company and reflecting the full amount of money received from the sale of products, services, works for the period under review.	The significant increase in revenue in 2018 highlights continuing favourable market opportunities and the high quality of the sales and project implementation system.	In 2019, the Company expects further double-digit growth of revenues.
Net profit	RUB 293.1 mln in 2018 vs RUB 135 mln in 2017 Up by 2.1x	Since its foundation, the Company's growth is financed from own funds. Net profit is an important source of financing for development projects and a base for dividend payments to shareholders.	Following the results of 2018, net profit more than doubled. Such growth was made possible by focusing on increasing the profitability of the project portfolio and monitoring operational efficiency	The Company is making every effort to propel the performance in the future. According to the Company's estimates, in 2019 net profit will continue the positive growth trend.
Volume of production	RUB 1,155 mln in 2018 vs over RUB 900 mln in 2017.	Volume of production is an indicator of the effectiveness of the Company's operating activities, which reflects the ability of the operating and management teams to achieve the goals outlined in the plan for the year.	Over the year, the indicator grew by 28% due to the launch of new product groups demanded by customers	Since 2014, the volume of production has grown by about 6.5 times. The Company will continue to ramp up the production by introducing new types of products to the market.
Engineering centres	In 2018, the Company opened three new engineering centres, totalling 16.	The engineering centres of the Company are engaged in the integrated construction of power supply systems (from design to commissioning) across the Russian Federation and the CIS through a well-developed branch network.	The Company consistently implements previously announced plans to open new engineering centres, which, due to the geographical proximity to potential customers' facilities, are delivering synergies	The Company plans to expand the network to 23 by 2021 by opening new centres both in Russia and abroad.



# FINANCIAL Performance (MD&A)

In 2018, the total consolidated revenue rose to RUB 3,286.7 mln or by 26.6% year-on-year. Profit for the year increased by 117.5% to RUB 293.1 mln. EBITDA reached RUB 382.3 mln, EBITDA margin amounted to 11.6%.

At the end of 2017, the Company published combined statements. In 2018, PJSC Evropeyskaya Elektrotehnica completed the consolidation of the assets of subsidiaries owned by the Company. This gave it an option to disclose consolidated financial statements in accordance with international standards.

## Financial highlights

Indicator, RUB mln, unless otherwise stated	2018	2017	Change
Consolidated revenue	<b>3,286.7</b>	<b>2,595.3</b>	+26.6%
Gross profit	<b>796.3</b>	<b>467.9</b>	+70.2%
<b>Gross profit margin</b>	<b>24.2%</b>	<b>18.0%</b>	<b>+6.2 p.p.</b>
Operating profit	<b>370.5</b>	<b>306.9</b>	+20.7%
<b>Operating profit margin</b>	<b>11.3%</b>	<b>11.8%</b>	<b>-0.5 p.p.</b>
EBITDA [1]	<b>382.3</b>	<b>361.3</b>	+5.8%
<b>EBITDA margin</b>	<b>11.6%</b>	<b>13.9%</b>	<b>-2.3 p.p.</b>
Profit for period	<b>293.1</b>	<b>134.7</b>	+117.5%
<b>Profit margin for period</b>	<b>8.9%</b>	<b>5.2%</b>	<b>+3.7 p.p.</b>
Investments [2]	407.0	226.4	1.8x
R&D investments [2]	165.0	30.0	5.5x
Free cash flow to equity [2]	49,129	-42,458	-
<b>Return on equity (ROE)</b>	<b>47.4%</b>	<b>35.7%</b>	<b>+11.8 p.p.</b>
Dividends paid	91.9	6.9	12.3x
	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>Change</b>
Assets	1,291.2	1,154.9	+11.8%
Cash and cash equivalents	246.8	209.8	+17.6%
Equity	53.8%	46.9%	+6.9 p.p.
Net working capital [2]	715.4	565.8	+26.4%
Current liquidity ratio	2.6	2.2	+0.4%
Net debt [1]	-153.1	-120.3	-
Net debt/EBITDA	-0.40	-0.33	-

Source: Audited Consolidated Financial Statements of PJSC Evropeyskaya Elektrotehnica for 2018.

## Notes.

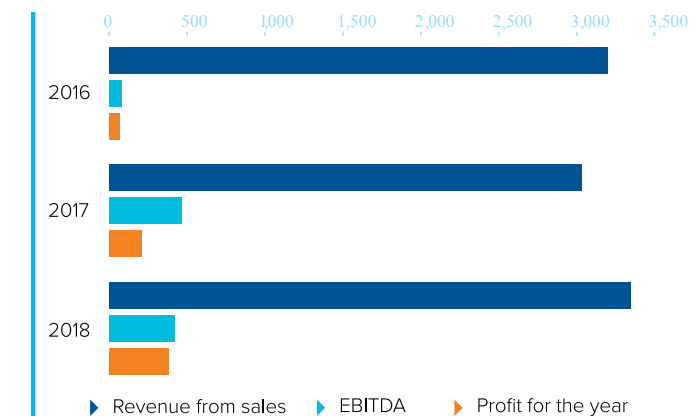
[1] Indicators of a non-international financial reporting standard; the calculation procedure is presented below in this release.

[2] Indicators of a non-international financial reporting standard.

## DRIVERS OF KEY FINANCIAL INDICATORS OF THE COMPANY

### Consolidated revenue

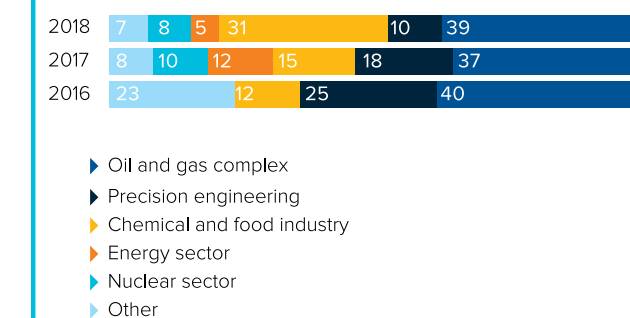
The consolidated revenue of the Company amounted to RUB 3,286.7 mln, up 26.6% year-on-year. Nine percent of revenue was made up by revenues from exports (-2 p.p. year-on-year).



The structure of consolidated revenue for the reporting period:

- ▶ 93.0% - income from the fabrication of engineering systems and the activities of engineering centres in the electrical market,
- ▶ 7.0% - income from the manufacture of process equipment for the oil, gas and petrochemical industries.

The largest (by delivery costs) share of the Group's contracts in recent years has fallen to the oil and gas sector. Another group of recipients with a comparable share of deliveries made in the reporting year includes chemical and food industry companies.



Key drivers of consolidated revenue growth:

- ▶ physical volumes of shipped products grew by 48% during 2018, which highlights the ongoing investment boom in Russian industry, infrastructure construction;
- ▶ The Company enlarged the system of engineering centres to 16, new centres in Russia were created in Tyumen, Lipetsk, Nefteyugansk; the Company also stepped up efforts to search for new business opportunities in the Republic of Azerbaijan and the Kingdom of Morocco;
- ▶ As of the end of 2018, the Group was running 497 projects by working with customers through its own engineering centres ensuring proximity to ongoing projects.

According to the results of the reporting year, there was a greater revenue diversification: the share of revenues received from the two largest customers of the Company decreased to 20% (23% year-on-year).

### Cost of sales and gross profit

Cost of sales in the reporting period amounted to RUB 2,490.3 mln. The growth rate of cost (+17.1%) was way below the growth rate of revenue (+26.6%), which made a notable contribution to the growth in the Company's business margin.

Gross profit reached RUB 796.3 mln, up 70.2% year-on-year. The gross profit margin of the Company increased by 6.2 p.p. to 24.2% through effective measures taken by the Company to control the cost of sales.

### Administrative and selling expenses

Indicator, RUB mln	2018	2017	Change, %
Wages, salaries, and social contributions	164.9	77.7	+112.2
Transportation services	53.0	29.1	+82.2
Information services	41.5	18.1	+128.6
Materials and stationery	36.2	18.4	+96.7
Consulting and legal services	29.1	13.7	+112.9
Business trips	20.1	15.9	+26.6
Operating leases	16.4	8.5	+93.0
Electrical installation works	16.1	38.0	-57.6
Amortisation charges	9.5	15.0	-36.7
Repairs and maintenance	3.8	1.7	+115.0
Communication costs	3.7	3.2	+17.9
Banking services	2.3	3.2	-28.8
Insurance	1.6	6.0	-73.1
Marketing services	0.5	0.7	-34.9
Security	0.3	0.3	+7.6
Taxes	0.3	0.3	-15.0
Storage	0.1	0	-
Other expenses	22.8	18.5	+23.3
<b>Total administrative and selling expenses</b>	<b>422.1</b>	<b>268.4</b>	<b>+57.3</b>

The increase in expenses for wages and social contributions (+112.2%), information services (+128.6%) in the reporting year was spurred by the launch of the subsidiary, LLC ROG-Engineering, which creates equipment for the oil, gas, and petrochemical industries. This was accompanied by the expansion of the Group of Companies along with building a professional team in Bashkortostan and accelerating the marketing efforts to promote process equipment in the Russian Federation, neighbouring countries, and in the Middle Eastern, the Persian Gulf, and North African countries.

### Operating profit

The Company's operating profit grew by 20.7% to RUB 370.5 mln. Operating profit margin showed a slight decrease to 11.3% (11.8% year-on-year).

The growth in operating profit was influenced by higher administrative and selling expenses and a decrease in other income.

The decrease in other income in the reporting year is associated with the fact that in 2017 the Company earned a one-time income in the amount of RUB 74.2 mln from securities trading (non-speculative).

### EBITDA

Indicator, RUB mln	2018	2017	Change
Operating profit	370.5	306.9	+20.7%
Depreciation of fixed and intangible assets	11.8	15.0	-21.5%
Revaluation of fixed assets		39.4	-
EBITDA	382.3	361.3	+5.8%
<b>EBITDA margin</b>	<b>11.6%</b>	<b>13.9%</b>	<b>-2.3 p.p.</b>

EBITDA reached RUB 382.3 mln (+5.8% year-on-year). The margin of this indicator in the reporting period decreased to 11.6% (13.9% in 2017).

### Profit before tax

Profit before tax increased 2.1 times to RUB 359.0 mln.

Reduction in financial expenses by 86.4% to RUB 23.2 mln is related to the restructuring of borrowings carried out in the reporting period and the achieved improvement in the conditions for their use: reduction of interest rates with a simultaneous increase in the period to maturity.

### Profit for period

At the end of 2018, the Company's profit increased to RUB 293.1 mln, 2.1 times up on last year. The profit margin the Company rose significantly to 8.9%, from 5.2% a year earlier.

### Dividends

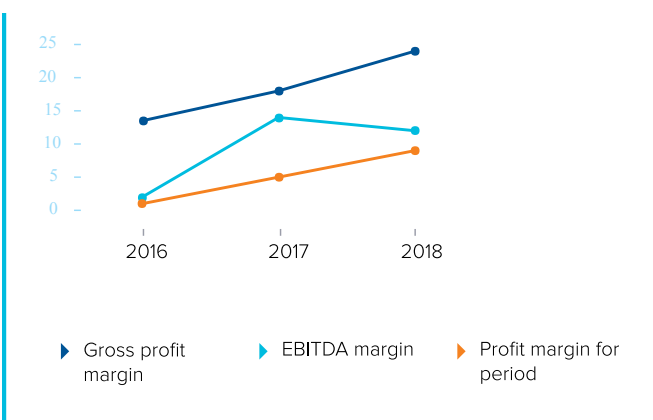
Based on the results of the Group's activities in 2017, the Company paid dividends in the amount of RUB 91.9 mln. This is 12.3 times above the dividend payments made a year earlier.

### Free cash flow

Indicator, RUB mln	2018	2017	Change, %
Free Cash Flow on Equity (FCFE)	49.1	-42.5	-
Free cash flow of the firm (FCFF)	46.1	91.6	-49.6

At the end of 2018, the Company's free cash flow was positive. This was driven not only by the Company's profitable traditional business of creating engineering systems but fresh cash flows generated by a subsidiary, LLC ROG-Engineering specialising in the manufacture of equipment for the oil, gas and petrochemical industries.

The return on equity (ROE) was on the same trend and increased to 47.4% (35.7% in 2017).



Free cash flow is positive even despite the Company's investments to form the working capital of this Subsidiary during the first half of 2018 and in the ongoing Investment Programme and the R&D Programme. Rising earnings from the operating activities of LLC ROG-Engineering in 2019 will be making a more and more significant contribution to the consolidated financial performance of PJSC Evropeyskaya Elektrotehnica.

**Net debt**

Indicator, RUB mln	31 December 2018	31 December 2017
Total debt	93.7	89.5
Net of cash and cash equivalents	246.8	209.8
<b>Net debt</b>	<b>-153.1</b>	<b>-120.3</b>
Net debt/EBITDA	-0.40	-0.33

The net debt of the Company remains negative, as of 31 December 2018 this figure amounted to minus RUB 153.1 mln (this means that the cash and cash equivalents exceed the total debt on the books). As of the reporting date, PJSC Evropeyskaya Elektrotekhnic had no debt owned to external creditors not affiliated with Evropeyskaya Elektrotekhnic's Group of Companies.

At the end of 2018, the cash and cash equivalents showed an increase of RUB 37.0 mln, even taking into account the financial investments required to launch LLC ROG-Engineering and to continue the Group's Investment Programme.

# KEY RISKS and uncertainties

The Company's activities are associated with various risks that may affect the results of operating, financial, and investment activities.

The Company strives for the successful development, rational allocation of resources, and enhancing of competitive fitness through efficient risk management.

Risk management includes the identification and assessment of potential threats and the elaboration of risk mitigation actions.

The Company has internal procedures in place to regulate risk management activities.

The main risks and uncertainties are described below together with activities aimed at reducing potential threats.

## THE COMPANY'S RISK MANAGEMENT POLICY

The Company's risk management system is primarily focused on revealing potential risks before they occur or at a very early stage.

The Company regularly analyses the probability and impact of risks. One the risks are identified, the Company evaluates them and prepare the measures to eliminate or mitigate the negative consequences to acceptable level.

The essence of the risk management system of PJSC Evropeyskaya Elektrotekhnic is to implement a continuous process relating to all activities of the Company and aimed at risks identification, assessment and development of measures to mitigate the risks and probability of their occurrence.

The Company's business are exposed to the risks inherent in its financial and economic activities. The presented list of risks is not exhaustive and reflects an outlook on the most significant risks, based on the Company's own estimates.

## INDUSTRY RISKS

A potential deterioration of the situation in the Company's business may be attributable to the general downward economy of the country.

The most significant, in the Company's opinion, potential changes across sectors of the domestic market occur in the industries of the Company's operations - the market of engineering systems in the field of energy supply and the market of technological systems for the production and processing of hydrocarbons. The Company is exposed to market risk associated with the performance of the economic system as a whole, somehow affecting its activities. In order to mitigate these factors, the Company intends to focus towards the expansion of its customer base and the optimisation of costs. If these markets slow down, these risks can be partially insured by an increase in the number of sales markets (sales, or geographic, diversification), however, in the event of a systemic economic crisis, all markets, including the markets of traditional buyers of the Company's products and services, will be affected.

The most meaningful, according to the Company, possible industry-related changes in the foreign market: industry-related changes in the foreign market have less impact on the Company's activities, however, they can indirectly affect the situation on the Russian market of engineering services.

Management of these risk categories is expected to be built through the introduction of strategic management of the Company based on a process approach and by managing the value of the Company in the interests of shareholders. The resulting Risk Management System will be able to flexibly respond to market development. The transparency of management together with the commitment to take into account the interests of shareholders will allow combining controls, maintaining a balance between reasonable diversification and focusing on key, most profitable business areas, and applying these measures along with minimising production costs in the event of an unfavourable economic scenario.

Risks associated with a possible change in the prices of raw materials, services used by the Company in its activities, and their impact on the same and the fulfilment of obligations under contracts in the domestic market: changes in the prices of materials and services in the domestic market may lead to insignificant fluctuations in prices for the Company's products and services and will not affect the performance of contractual obligations by the Company.

Risks associated with possible changes in the prices of raw materials, services used by the Company in its activities and their impact on the same and the fulfilment of obligations under contracts in the foreign market: there are no such risks, since the Company's activities do not utilise raw materials and services in foreign markets.

Risks associated with a possible change in prices for the products and services of the Company in the domestic market and their impact on the Company's activities and the fulfilment of contractual obligations:

- ▶ depending on changes in prices for raw materials and services used by the Company in its activities, as well as the pricing policy of peer companies, there is a risk of changes in prices for products and services of the Company. The Company will change the cost of its services in the domestic market in keeping with the prevailing market conditions, based on economic feasibility and in order to avoid the negative impact of price changes on the Company's activities. Risks associated with a possible change in prices for the Company's services in the domestic market are not significant and will not affect the Company's activities, the fulfilment of contractual obligations.

Risks associated with a possible change in prices for the products and services of the Company in the foreign market and their impact on the Company's activities and the fulfilment of contractual obligations:

- ▶ the largest volume of sales of goods and services of the Company falls on the domestic market, and therefore the number of risks associated with a possible change in prices for the products and services of the Company in foreign markets is minimal.

In the event of a negative impact of these risks on the Company's activities, the Company plans to conduct a risk analysis and take appropriate decisions in each case.

Deterioration of the situation in core industries may negatively affect the Company's activities, but, in the Company's opinion, it will not be able to significantly worsen financial results of operations and affect the performance of its contractual obligations.

## COUNTRY AND REGIONAL RISKS

The Company is registered as a taxpayer in Moscow, carries out the main activities in the Russian Federation, Kazakhstan, Uzbekistan, and also closely cooperates and interacts with partners from a wide range of countries around the world, which is associated with certain risks of political instability, for example, government cabinet changes, negative political changes, and civil disorders. Russia's difficult relations with the United States and the European Union can potentially exert pressure on Western partners of the Company. Moreover, the further imposition of sanctions against Russia and the non-cooperation at the international level in several areas can lead to the deterioration of the national business climate, economic slowdown and, as a result, the suspension of investment programmes.

These factors may have an adverse effect on the Company's market value, the conditions of its operations, lead to the deterioration of relations with Western partners, the reduction of orders and, as a result, take a heavy toll on the operating and financial performance of Evropeyskaya Elektrotekhnic.

The Company continuously monitors political processes and follows the progress of the situation both in and beyond the Russian economic space. The Company assesses the significance level of these risks as below average. The main country risks affecting the Company are the risks of the Russian Federation. In accordance with changes in the political and economic situation and in order to improve the banking, judicial, tax, administrative, and legislative systems, the Government of the Russian Federation is carrying out a series of consistent reforms aimed at stabilising the modern Russian economy and its integration into the world system. While reforming of the business and legislative infrastructure is in process, the following risks remain: the inconvertibility of the national currency in foreign countries, low liquidity in the long-term lending and investment markets, and inflation in excess of inflation of developed nations.

Macroeconomic risks in Russia can be of significant impact. Stagnation in some sectors of the economy may interfere with the plans for the further development of the Company's business. The following factors can hamper further socio-economic development of the Russian Federation:

- ▶ overexposure of the budget to international energy prices;
- ▶ underdevelopment of political, legal, and economic institutions;
- ▶ immaturity of the judicial system;
- ▶ inconsistency and frequent changes in tax and currency laws.

Risks associated with possible military conflicts, the imposition of the state of emergency and strikes in Russia and in the region where the Company is registered as a tax payer are assessed as unlikely.

The risk of natural disasters, the possible termination of transport communication and other regional factors is minimal.

Most of the economic, political, and legal risks specified in this section, due to their global reach, are beyond the Company's control. In the event of significant political and economic instability in Russia or in the region, which can negatively affect the activities and revenues of the Company, it is expected that a number of anti-crisis measures will be taken to mobilise the business and minimise the potential negative impact of the political situation at the national and regional level on the Company's business.

There are no projections for negative changes that may adversely affect the activities and economic position of the Company in the near future. In the Company's opinion, the economic situation in the country (and region) is looking up, which is favourable to the Company's business and its ability to fulfil obligations.

The prospective actions of the Company in the event of a negative impact of changes in the situation in the country (countries) and the region on its activities: in the event of a negative impact of changes in the situation in the Russian Federation and other countries, as well as in the region of registration of the Company, the city of Moscow, on the Company's activities, it is planned:

- ▶ revise the Investment Programme;
- ▶ optimise the cost structure;
- ▶ change the structure of the provided services in order to maximise profits.

## FINANCIAL RISKS

Historically the Company has relied exclusively on internal sources to fund its growth, reinvesting its net profit in development and not resorting to debt financing. Following this course, the Company assesses the impact of risks of changes in interest rates on its business activities as insignificant.

The Company operates in the Russian Federation, Kazakhstan, Uzbekistan, and in several other countries across the world. The bulk of the Company's contracts are in national currency. The cost of equipment, materials, services and employee salaries are denominated in roubles. A part of purchased equipment is imported. A small part of the Company's contracts is denominated in foreign currency. Even though the share of contracts in foreign currency does not exceed 3% of the total contractual base of the Company, a sharp change in the exchange rate of such a currency may affect its financial results. Changes in the exchange rate of foreign currencies mainly have a negligible effect on the activities of the Company (the Company is slightly exposed to currency risks).

The Company's activities depend on the rouble exchange rate and inflation rate. With the growth of foreign exchange rates against the rouble, the national currency will weaken. The weakening of the rouble will result in accelerated inflation, which could negatively affect the operational performance and the financial position of the Company. It is not possible to predict the critical inflation rate for the Company, since in addition to the level of consumer prices, it is necessary to take into account changes in the real purchasing power of the rouble, changes in the prices of raw materials (materials) used by the Company in its activities, the situation on the market of engineering and technological systems, and further government policy in this field.

In the Company's opinion, the economic situation in the country (and region) is looking up, which is favourable to its business and its ability to fulfil contractual obligations. In the event of a negative impact of changes in the exchange rate, inflation and interest rates on the Company's activities, it plans to conduct a risk analysis and make appropriate decisions in each case, including:

- ▶ revise the Investment Programme;
- ▶ optimise the cost structure;
- ▶ change the structure of the provided services in order to maximise profits.

## LEGAL RISKS

### Legal risks associated with the Company's operations (separately for domestic and international markets)

In the foreseeable future, the Company regards the risks associated with changes in currency, tax, customs and licensing legislation, which may entail a deterioration in the financial condition of the Company, as insignificant. In doing business, the Company relies on the strict compliance with tax, customs, currency, and licensing legislation, monitors and timely responds to relevant changes, and also seeks constructive dialogue with regulatory authorities when it comes to law enforcement practice.

### Risks related to changes in exchange regulations

Domestic market: the risks associated with the possibility of changes in exchange regulation are currently considered by the Company as minimal. The Company believes they will not have a significant impact on its operations.

Foreign market: legal risks associated with the Company's activities in the foreign market are minimal, as the Company carries on its core business in the domestic market. However, in the case fixed assets were purchased from foreign counterparties in foreign currency, the Company would be exposed to the risks of changes in the foreign exchange laws of foreign countries. In this case, it will take all necessary measures to do its business in full accordance with the laws governing international trade. Due to the growing international tension and the possible introduction of a new package of sanctions against the Russian Federation by the United States and the European Union, the Company assesses the risk of tightening currency regulation as medium.

### Risks associated with changes in tax laws

Domestic market: the legal risks associated with changes in the taxation system are essential for the Company. The reform of the tax system is accompanied by changes in legislation, law enforcement and judicial practice. In this regard, there are potential sources of financial losses for the Company arising from the application of various fines and tax payments in amounts greater than expected. The Company fully complies with applicable tax laws, which however does not eliminate the potential risk of differences of opinions with relevant regulatory authorities on issues that may be ambiguous. In general, tax risks associated with the Company's operations are characteristic of most business entities operating in the territory of the Russian Federation and can be considered as nationwide. The Tax Code of the Russian Federation provides against the retrospective application of laws that worsen the position of a taxpayer. In view of the aforesaid, this risk is assessed by the Company as insignificant.

Foreign market: the Company considers the risks associated with changes in tax laws in the foreign market as minimal, since the Company is a resident of the Russian Federation, which, in turn, has a comprehensive line of double taxation avoidance agreements for its residents. Due to this, the Company can regard these risks as minimal.

Should any changes be made to applicable taxation rules and procedure, the Company will intend to plan and carry out its financial and business activities with due regard of such changes.

### Risks associated with changes in customs control regulations and duties

Changing the customs control regulations and duties may have a negative impact on the Company's operations both in the domestic and foreign markets. Nevertheless, Russia's entry into the WTO can be regarded as an advantage for the Company's business, since the binding of customs tariffs will limit the Company from the risk of cost-plus inflation due to the introduction of higher customs duties.

### Risks associated with changes in licensing requirements for the core business of the Company or licensing of rights to use objects with limited turnover (including natural resources)

Domestic market: The Company carries out non-licensable activities. However, in the case of the adoption of regulatory acts establishing the obligation to license those types of activities carried out by the Company, it will act within the limits of the law. The Company undertakes to fulfil all the requirements necessary to obtain licenses or extend their term. The possibility of changing the requirements for licensing the core business of the Company is considered as unlikely. Subject to changes in the requirements for licensing the activities of the Company or licensing the rights to use objects with limited turnover, the Company will take the necessary measures to obtain the appropriate licenses and permits. Risks associated with changes in legislation or decisions of federal or local authorities on licensing issues are beyond the control of the Company, and it cannot guarantee that in the future there will be no changes of this kind that could adversely affect its activities. However, the risk of changes to the licensing legislation is considered to be insignificant.

Foreign market: The Company does not carry out activities required to be licensed on the foreign market, and therefore this risk is regarded as minimal. In the event of a change in licensing requirements for the core business of the Company, it will act in accordance with the new requirements, including obtaining the necessary licenses.

### Risks associated with changes in judicial practice on issues of the Company's activities (including licensing), which may adversely affect the results of its activities, as well as on the results of ongoing lawsuits the Company is involved in

Domestic market: risks associated with changes in judicial practice are present and may subsequently negatively affect the Company's performance. At the end of the reporting period, the Company does not participate in litigations, which can lead to significant costs and adversely affect its financial condition. The Company cannot entirely rule out the possibility of participating in litigations that could affect its financial condition in the future. However, the Company has all the means of legal protection of interests, which allows assessing this risk as minimal.

Foreign market: risks associated with changes in judicial practice are present and may subsequently negatively affect the Company's performance. At the end of the reporting quarter, the Company does not participate in litigations, which can lead to significant costs and adversely affect its financial condition. The Company cannot entirely rule out the possibility of participating in litigations that could affect its financial condition in the future. Moreover, the Company is on an equal footing with other market participants and has all the means of legal protection of interests, which allow assessing this risk as minimal.

## Risk of losing reputational capital (reputational risk)

The Risk of losing reputational capital (reputational risk) implies possible losses resulting from a decrease in the number of customers (contractors) due to the formation of a negative image of the financial stability, financial position of the Company, the quality of its products (work, services) or the nature of its activities in general.

In order to reduce reputational risk, the Company pursues an Information Policy on the formation of a favourable image: publishing press releases, conducting presentation events, participation of subject matter experts in industry conferences, disseminating information on social networks on the Internet, inviting representatives of the investment community to various image-building events, etc.

To prevent the spread of negative information about the financial situation and financial stability, the Company regularly posts accounting (financial) statements and information about net assets on the Internet.

In order to ensure effective management of the reputational risk, the management bodies of the Company take timely measures to eliminate violations in the business operations. The Company also has established a procedure for submitting internal reports on responses to feedback from the media, customers and counterparties, shareholders and other persons about the issuer, affiliates, subsidiaries, and related entity.

In general, the Company estimates reputational risks as insignificant.

## STRATEGIC RISK

A risk that the Company will suffer losses as a result of mistakes (drawbacks) made when making decisions determining the Company's strategy for operation and development (strategic management), which consist in a failure to consider or properly consider possible threats to the Company's activities, the failure to correctly and reasonably determine promising areas of activity in which the Company can achieve an advantage over competitors, a lack or insufficiency of necessary resources (financial, material and technical, and human resources) and organisational measures (management solutions) designed to ensure the achievement of the Company's strategic goals, is assessed as minimal.

The main goal of strategic risk management is to maintain the risk assumed by the Company at a level determined in accordance with its own strategic objectives, as well as to ensure maximum safety of assets and capital based on minimisation (exclusion) of possible losses.

The Company applies the following strategic risk management methods:

- ▶ business planning,
- ▶ financial planning,
- ▶ follow-up of approved plans,
- ▶ analysis of changes in the market environment,
- ▶ revision of plans.

## RISKS ASSOCIATED WITH THE COMPANY'S ACTIVITIES

Risks unique to the Company or associated with its core business activities, including risks associated with:

- ▶ ongoing court proceedings the Company is involved in;
- ▶ with the inability to extend the license of the Company to conduct a certain type of activity or to use objects with limited turnover (including natural resources): the Company carries out no licensable activities;
- ▶ possible liability of the Company for debts of third parties, including its subsidiaries: risks are insignificant;
- ▶ the risk of losing consumers whose turnover accounts for at least ten percent of the total revenue from the sale of products (works, services) of the Company: there is no such a risk, since the Company does not have consumers whose turnover accounts for at least 10% of the total revenue from the sale of products.

## EXPERIENCE FROM IMPLEMENTED PROJECTS

Our Company is fully engaged in the biggest-ever renewal and upgrade of the infrastructure and production capacities in Russia and in bordering countries.

We are making a significant contribution to the success of hundreds of new construction and renovation projects in industrial and other sectors of the economy.

- ▶ oil and gas complex;
- ▶ oil and gas chemistry;
- ▶ metals and mining industry;
- ▶ precision engineering;
- ▶ banks and Data Processing Centres;
- ▶ development and construction;
- ▶ airports, railway stations, sea ports;
- ▶ communication and telecommunication companies;
- ▶ multifunctional, retail and office complexes;
- ▶ sport complexes and cultural institutions;
- ▶ food industry.

The up-to-date list of projects implemented by the Company is available on the Company's website: [http://euroet.ru/realizovannie\\_proekti](http://euroet.ru/realizovannie_proekti).





# BUSINESS OVERVIEW

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- 42 Federal Network of Engineering Centres
- 42 Production of Switchboard Equipment (under 1,000 V) in Vidnoye city (the Moscow region)
- 42 Own Warehouse Complex in Vidnoye city (the Moscow region)
- 42 Production of Power Equipment in Omsk city
- 43 Production of Oil and Gas Equipment in Ufa city
- 43 Manufacture of Industrial Electric Heat Tracing Systems in Orel city
- 43 Production of ITS Lighting Equipment, the Moscow region
- 44 Own R&D Program

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## FEDERAL NETWORK OF ENGINEERING CENTRES

Link to activities map

## PRODUCTION OF SWITCHBOARD EQUIPMENT (UNDER 1,000 V) IN VIDNOYE CITY (THE MOSCOW REGION)

Overall performance:

- ▶ Production area: 1 thous. sq. m
- ▶ A wide range of low-voltage complete devices is under production:
  - ▶ control stations switchboards,
  - ▶ input switchgears,
  - ▶ main switchboards,
  - ▶ switchboards,
  - ▶ storey switchboards,
  - ▶ lighting boards,
  - ▶ automatic load transfer cabinets,
  - ▶ control cabinets,
  - ▶ automatics cabinets.

Availability of all required certificates and approvals, including GAZPROMCERT certificate.

In 2018, the production volume amounted to:

- ▶ 220 switchboards (columns) of Prisma series with Schneider Electric element base;
- ▶ 157 switchboards (columns) with DKS company's design base;
- ▶ 185 switchboards with Rittal enclosures.

## OWN WAREHOUSE COMPLEX IN VIDNOYE CITY (THE MOSCOW REGION)

Overall performance:

- ▶ Storage area: 1 thous. sq. m (floor area).
- ▶ Special warehouse equipment: two KOMATSU diesel-powered fork lifts of different capacity and lift height; OMG reach truck; hydraulic trolleys; storage racks of 5 and 9.5 m height; pallet balance.
- ▶ Storage possibilities: general-purpose heated covered warehouse; sheltered storage site; outside site.
- ▶ Proximity to traffic arteries: Kashirskoye high road – 1.5 km, Moscow Ring Road – 5.5 km, A107 (First Concrete Ring) – 28 km.
- ▶ Support of the Company's inport/export transactions: acceptance and shipment of foreign contractors' cargos, in particular from Kazakhstan, Poland, United Arab Emirates, Kirghizia, Austria, the United Kingdom, Finland, Lithuania, Czechia, and Germany.

## PRODUCTION OF POWER EQUIPMENT IN OMSK CITY

- ▶ Production area: 9.5 thous. sq. m
- ▶ High level of automation, up-to-date European equipment.
- ▶ Production of complete transformer substations and switchboard equipment of 6–35 kV:
  - ▶ 6–20 kV external complete transformer substations in metal and sandwich panel enclosures;
  - ▶ 6–20 kV modular complete transformer substations in concrete enclosures;
  - ▶ 35 kV transformer substations;
  - ▶ switchgears/points under 35 kV;
  - ▶ closed switchgears under 35 kV;
  - ▶ general substation control points;
  - ▶ 6–35 kV fixed and draw-out complete switchgears.
- ▶ Electrotechnical laboratory under 110 kV.
- ▶ Availability of all required certificates and permits, including the certificate of Self-Regulatory Organisation "SOYUZATOMSTROY", the Federal Security Service of Russia.

## PRODUCTION OF OIL AND GAS EQUIPMENT IN UFA CITY

- ▶ Production area: 68 thous. sq. m
- ▶ Entire workflow cycle, wide range of products.
- ▶ High-level qualifications of scientists, designers, industrial engineers, and blue collars.

## MANUFACTURE OF INDUSTRIAL ELECTRIC HEAT TRACING SYSTEMS IN OREL CITY

Overall performance:

- ▶ Production area: 3 thous. sq. m
- ▶ Types of produced goods in simplified form (actual): self-regulating heating cables, fasteners, accessories.
- ▶ Plans regarding launch of new goods production in 2019 (planned): constant output heating cables, fasteners, accessories.
- ▶ Availability of all required certificates and approvals: Certificate of Technical Regulations of the Customs Union No. 012, HSE Certificate, Fire Safety Certificate.
- ▶ In 2018, the production volume amounted to: 10,000 km.

## PRODUCTION OF ITS LIGHTING EQUIPMENT, THE MOSCOW REGION

- ▶ Being at Russian and CIS countries lighting market since 2012.
- ▶ Energy-saving light solutions of any complexity and for different spheres.
- ▶ Certificates of compliance with Russian and international standards.



## OWN R&D PROGRAM

Equipment category	Projects implemented in 2018
Switchboard equipment of any complexity (under 6,300 A)	<ul style="list-style-type: none"> <li>▶ A solution for Smart House systems has been developed together with <b>Schneider Electric</b>.</li> <li>▶ A portfolio of standard solutions has been developed for the railroad substations of <b>Moscow Metro State Unitary Enterprise</b>.</li> <li>▶ Standard solutions have been developed for the substation utilities of <b>PJSC Rosseti</b>.</li> <li>▶ Standard solutions have been developed for power supply to Data Processing Centres of financial institutions</li> </ul>
Transformer substations, MV cells	<ul style="list-style-type: none"> <li>▶ Substations for power supply and control of mud pumps have been developed for oil and gas customers.</li> <li>▶ A reinforced anti-vandal construct of enclosures has been developed for containers substations.</li> <li>▶ A special cell for non-nuclear (wind-driven) power generation of <b>Rosatomb</b> has been developed with significantly lower cost price and higher portability compared to other competitive proposals</li> </ul>
Industrial electric heat tracing systems	<ul style="list-style-type: none"> <li>▶ Special complete sets for connection, entry and termination of self-regulating heating cable have been developed.</li> <li>▶ A portfolio of standard assemblies for industrial electric heat tracing systems has been developed, which is in demand for designers.</li> <li>▶ The fasteners for industrial electric heat tracing systems increasing speed and quality of installation processes and accessories have been developed and are used successfully</li> </ul>
Electric lighting systems	<ul style="list-style-type: none"> <li>▶ A series of energy saving LED lamps for large shopping areas has been designed. The algorithms of combined lighting have been developed to decrease energy consumption in daily operation.</li> <li>▶ Non-standard installation assemblies have been developed and manufactured for flood light lamps on mast supports at a landscape park of <b>MEGA Ekaterinburg shopping mall</b>.</li> <li>▶ The devices to decrease disability glare have been developed and manufactured for a general flood light system at shopping areas of <b>MEGA Khimki shopping mall</b>.</li> <li>▶ The customised structures of architectural suspension systems for lighting of food-court have been developed and manufactured for <b>MEGA Kazan shopping mall</b>.</li> <li>▶ The thermal management schemes for the bodies of HSL, ES, CP accent lamps used for shopping area lighting have been improved.</li> <li>▶ External architectural lighting control systems have been designed for Hill8 Apartments Complex, <b>City – 21th Century</b>, as well as control systems for internal RGB-lighting at food-court of MEGA Kazan shopping mall.</li> <li>▶ LED lamps have been developed and manufactured for reconstruction of <b>Lotte Plaza</b> complex.</li> <li>▶ The surveys have been conducted regarding influence of new types of spectrum on growing of popular crop varieties in greenhouses. Phyto lamps with optimized spectral-response characteristics for sheltered ground have been manufactured</li> </ul>
Equipment for oil, gas and petrochemical industries	<ul style="list-style-type: none"> <li>▶ Creation of a range of innovative equipment for petrochemical and energy industries is a critical technological achievement of the Company making a base for future multi-fold increase of the Company's EBITDA indicator in the next years.</li> <li>▶ Implementation of early oil and early separation of initial water principles.</li> <li>▶ Modular container equipment for oil and gas pumping and processing system</li> </ul>







# HR AND SOCIAL POLICY

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# HUMAN Capital Management Philosophy

Human capital is one of the key drivers of successful business growth. With realising this, the management of PJSC Evropeyskaya Elektrotekhnica does its best to create conditions conducive to better performance efficiency of personnel and their involvement in the implementation of corporate objectives and also pursues an integrated approach to workforce management. The Company's activities rely on the respect for each employee and his/her rights.

## The regulatory framework for relations between the Company and employees:

- ▶ Constitution of the Russian Federation;
- ▶ Labour Code of the Russian Federation;
- ▶ The regulatory framework of relations between PJSC Evropeyskaya Elektrotekhnica and its employees.

Labour relations are regulated by employment and labour laws and other regulatory legal acts that contain employment and labour statutes. In particular: The Constitution of the Russian Federation provides the legal basis of employment and labour legislation; the Labour Code of the Russian Federation is the main special source of employment and labour laws; federal laws employment and labour statutes; decrees of the President of the Russian Federation, resolutions of the Government of the Russian Federation, resolutions of the Plenum of the Supreme Court of the Russian Federation on disputable matters of labour relations. The in-house policies and procedures of employment and labour law include: regulatory legal acts of the constituent entities of the Russian Federation; internal labour regulations established by the Company; employment contracts and agreements; orders and instructions of the Company's managers.

The working hours of the Company's employees (weekly hours, the length of the working day (shift), the beginning and end of work, breaks in work, the alternation of working and non-working days) are established by the Internal Labour Regulations in accordance with the employment and labour legislation. The normal working hours of employees are set in line with regulatory legal acts of the Russian Federation and is 40 hours per week.

## Observance of Human Rights

The approaches of PJSC Evropeyskaya Elektrotekhnica to relations with employees are based on the norms of Russian employment and labour statutes.

The Company provides employees with equitable opportunities to exercise their labour rights, regardless of gender, age, race, nationality, origin, property, social and official status, place of residence, religion, political opinion, or other circumstances not related to professional aptitude of an employee. All employees enjoy equal opportunities for personal self-fulfilment in the course of employment, the job performance is assessed impartially and fairly, employees are recruited and promoted solely on the basis of their vocational aptitude, knowledge, and skills.

PJSC Evropeyskaya Elektrotekhnica guarantees equal rights and non-discrimination by nationality, gender, origin, and any other grounds. The grounds for talent decisions and employee prospects are: qualifications, competencies of an employee, business requirements, personal qualities and, if this is essential due to the work performed, the teamwork skills.

PJSC Evropeyskaya Elektrotekhnica received no appeals and complaints related to discrimination and violation of human rights.

## STAFF PROFILE

To achieve key goals by providing, now and in the future, the required number of qualified and involved employees, PJSC Evropeyskaya Elektrotekhnica advances people incentive, training and development programmes, as well as talent pooling programmes.

Key areas of the HR strategy:

- ▶ systematic recruitment and rotation of personnel;
- ▶ talent management, competency development, and training;
- ▶ development of incentive systems and fostering of people engagement;
- ▶ better performance and organisational effectiveness.

## PERSONNEL STRUCTURE BY THE COMPANY'S KEY AREAS

As of 2018, the headcount of PJSC Evropeyskaya Elektrotekhnica exceeds 420 people, among them:

- ▶ 40% - blue-collar;
- ▶ 60% - white-collar.

Such growth was driven by the launch of a subsidiary, LLC ROG-Engineering, specialising in the manufacturing of process equipment for oil, gas, and petrochemical industries. The increased workforce requirements are coming from a change in manufacturing programmes and a ramp-up of manufacturing output of this Company.

The headcount compared to 2017 (190 people) increased by almost 121%.

The bulk of the employees work on a full-time basis with non-limited employment contracts.

### Headcount by gender, %

Indicator	2017	2018
Men	42	61
Women	58	39

### Headcount by age, %

Indicator	2017	2018
Under 30	10	20
30-50	85	70
Over 50	5	10

### Headcount by category, %

Indicator	2017	2018
Management	30	15
White collars	30	35
Blue collar	40	50

### Personnel by education level, %

Indicator	2017	2018
Postsecondary	70	60
Incomplete higher	10	10
Vocational secondary	20	30

### Turnover rate, %

	2017	2018
	8	5



## REMUNERATION, SOCIAL BENEFITS, AND GUARANTEES

We strive to maintain an efficient system of remuneration. We need to involve, retain and motivate all those whose qualification and performance can aid the Company's mission and achievement of business targets.

The personnel remuneration system is linked with the Company's Strategy and aimed at competitive remuneration, employees retention and development, carrier and professional development support.

Evropeyskaya Elektrotekhnica has an employees' remuneration policy in place, which defines goals, tasks and principles of payment for personnel labour.

## EVROPEYSKAYA ELEKTROTEKHNICA'S REMUNERATION SYSTEM

Material component:

- ▶ base remuneration;
- ▶ bonuses.

Evropeyskaya Elektrotekhnica regularly monitors the labour market and seeks to make all elements of remuneration system competitive. The salaries are reviewed according to the labour market dynamics.

## POLICY OF PAYMENT FOR LABOUR

Respectable remuneration of employee's labour is the basis for Evropeyskaya Elektrotekhnica Human Resource Management System. The Company has a systematic approach to determination of salary levels and compensation packages for employees considering the regional specific features of its subsidiaries and engineering centres.

Indicator	2017	2018 <sup>1</sup>
Average salary, RUB '000	36.9	63.8
Personnel costs, RUB mln	61.5	185.9

1. Note: The data for year 2018 includes LLC ROG-Engineering for the first time.

## PERSONNEL TRAINING AND DEVELOPMENT

Training is one of the key priorities of the Company in HR development sphere.

Evropeyskaya Elektrotekhnica training system covers all categories of employees. Training is continuous; it is implemented at all labour stages of an employee to provide consistent expansion of knowledges and competences and increase of profession skills as required by the Company's needs. The content of training programs is defined by the strategic goals of Evropeyskaya Elektrotekhnica and results of an employee's management and performance assessment.

The personnel training and development system of Evropeyskaya Elektrotekhnica implies solution of the following strategical tasks:

- ▶ providing the level of employees' professional competence as required by current and future needs of the Company's business;
- ▶ enhancing the Company's management competences (by developing the internal talent pool among others);
- ▶ providing the strategic projects of the Company with trained personnel.

Complying with the specified tasks and depending on the goals of training and development, the programs can be divided into several categories: mandatory training programs ensuring labour safety and production quality; professional development programs, including vocational training, retraining, and skill upgrading.

The mandatory training programs assist the Company in successful handling of tasks related to new spheres of activities and maintaining required level of competitive ability. Increase in employees' work quality and efficiency, decrease in turnover due to growing commitment and involvement contribute to cost saving. The Company plans to continue development of continuous training system for different kinds of employees.

In 2018 the training programs engaged 191 employees of Evropeyskaya Elektrotekhnica.

## EVALUATION OF PERSONNEL

Evropeyskaya Elektrotekhnica has an effective Personnel Evaluation System in place. The system is based on a competency building approach. Corporate, management and professional competences are reviewed.

The current evaluation system helps to solve the key business tasks:

- ▶ Company's personnel training and development planning;
- ▶ employees selection to the Company's talent pool;
- ▶ submission of up-to-date information regarding the levels of personnel competences development to the management for making HR solutions on hiring and promoting.

The advanced methods are used to evaluate the personnel, i.e. test, personality questionnaire, interview on competence, etc.

## HR MANAGEMENT GOALS AND TASKS FOR YEAR 2019

- ▶ Providing the required Evropeyskaya Elektrotekhnica staffing level based on long-term and short-term development plans of the Company.
- ▶ Improving training, retraining, and skill upgrading in compliance with the Russian Federation legislation.
- ▶ Developing a single model of total rewards aimed at balanced compensation package for different groups of personnel.



# CORPORATE GOVERNANCE REPORT

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# STATEMENT

## by the Chairman of the Board of Directors

**Sergey Dubenok**  
Chairman of Evropeyskaya Elektrotekhnika's Board of Directors



### THE COMPANY'S POSITIVE DYNAMICS IN 2018

Evropeyskaya Elektrotekhnika manages to scale up the business while improving the profitability of the operations. Profit margin for the reporting year increased to 8.9% (5.2% year-on-year), with the return on equity (ROE) reaching 47.4% (35.7% in 2017).

The Company is still demonstrating strong financial performance without borrowing from lenders outside Evropeyskaya Elektrotekhnika's Group of companies.

In October 2018, the Company for the first time received a credit rating from the Russian Analytical Credit Rating Agency (ACRA). In February 2019, ACRA upgraded the Company's rating to investment level **"BBB–"** (RU) with a "stable" outlook.

The results of the reporting year reflected our ability to monetize market opportunities arising in the context of continuing investment development in Russia and neighboring countries, upgrade and construction of new infrastructure facilities against the backdrop of import substitution, digitalization, and large-scale investment programs in a range of industries. We are closely following the concretization of new sources of large-scale demand for engineering and process equipment at the domestic level, promptly responding to newly emerging business opportunities.

### ACTIVE IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM

In the beginning of year 2018 the Board of Directors launched a complex roadmap to improve corporate governance practices within the Company. The Board of Directors triggered development of a number of internal documents regulating the Company's bodies activities and defining the policy for different spheres of corporate government.

The members of the Board of Directors' were actively involved in the process. Within the reporting year, nine meetings of the Board were held with 53 issues elaborated.

To protect and exercise the minority shareholders' rights, two independent members were selected to the Company's Board of Directors, which are the specialists with a huge experience and contacts in Russian and foreign financial sector.

The Committees of the Board of Directors are in place with the independent directors playing the core role:

- ▶ the Nomination (HR) Committee;
- ▶ the Remuneration Committee;
- ▶ the Audit Committee.

A number of key internal documents were accepted or updated, i.e. the revised Charter and the revised Company's Regulations on the Board of Directors. New Regulations on the General Meeting of Shareholders, Risk Management and Internal Control Policy, Regulations on the Information Policy were developed and approved.

Amid the expansion of activities coverage, new departments have been established in the Company - i.e. the Internal Control and Risk Management Service, the Internal Audit Department - aimed to monitor, check and predict all risks linked with our business.

For more details, see Section "The Board of Directors' Report on the Results of Work 2018".

The Company gradually increases its forces to develop the corporate government system with rates appropriate to its activities scale and diversity growth and considering all the parties concerned.

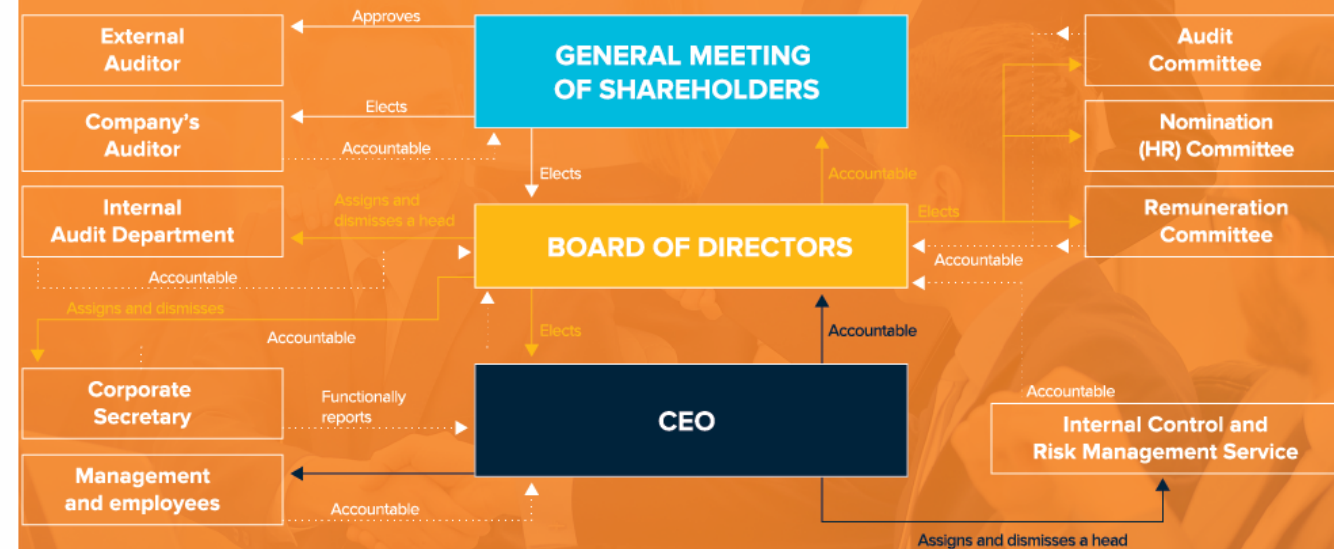
# CORPORATE Governance System

The corporate governance structure of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica:

- ▶ the General Meeting of Shareholders is the supreme governing body;
- ▶ general management of the Company's activities is provided by the Board of Directors, with the exception of resolving issues referred to

- ▶ the exclusive competence of the General Meeting of Shareholders;
- ▶ the current operations of the Company are managed by the sole executive body – CEO.

## EVROPEYSKAYA ELEKTROTEKHNICA'S CORPORATE GOVERNANCE STRUCTURE



# GENERAL Meeting of Shareholders

The General Meeting of Shareholders of Evropeyskaya Elektrotekhnica carries out its activities in accordance with the Federal Law on Joint-Stock Companies and the Company's Charter.

The Company annually holds the Annual General Meeting of Shareholders not earlier than two months and no later than six months after the end of the financial year. The procedure for preparation, convocation, holding and summarizing of the results of the General Meeting of Shareholders is determined by the current legislation, the Company's Charter, and the Regulations on the General Meeting of Shareholders.

**According to the Charter, the scope of functions of the General Meeting of Shareholders includes the following matters:**

- ▶ making modifications and amendments to the Charter or approval of the new version of the Charter;
- ▶ reorganising the Company;
- ▶ liquidating the Company, appointing the Liquidation Committee and approving the interim and final liquidation balance sheets;
- ▶ determining the quantitative composition of the Company's Board of Directors, electing its members and early terminating their powers, as well as paying remuneration and (or) compensation to members of the Board of Directors for their functions and adjusting the amount of remuneration;
- ▶ determining the quantity, nominal value, category (type) of authorised shares and rights granted by these shares;
- ▶ increasing the charter capital of the Company by appreciating par shares; decreasing the charter capital of the Company by decreasing the nominal value of the shares, or through the acquisition by the Company of a part of the shares to reduce the total number of outstanding shares, or by redeeming the shares acquired or bought back by the Company;
- ▶ electing the members of the Company's Audit Commission and early terminating their powers;
- ▶ approving the Auditor of the Company;
- ▶ paying (declaring) dividends for the first quarter, six and nine months of the reporting year;
- ▶ approving the Annual Report, annual accounting (financial) statements of the Company;
- ▶ distributing the profit - including paying (declaring) dividends, excluding paying (declaring) dividends for the first quarter, six and nine months of the reporting year - and losses of the Company according to the results of the reporting year;
- ▶ determining the procedure for the General Meeting of Company's Shareholders;
- ▶ splitting and consolidating the Company's shares;
- ▶ making decisions on authorisation or further approval of transactions in cases stipulated by Clause 83 of Federal Law "On Joint-Stock Companies";
- ▶ making decisions on authorisation or further approval of major transactions in cases stipulated by Clause 79 of Federal Law "On Joint-Stock Companies";
- ▶ purchasing the outstanding shares by the Company in cases specified by Federal Law No. 208-FZ "On Joint-Stock Companies" dated December 26, 1995;
- ▶ making decisions on participation in financial industrial groups, associations and other unions of commercial organisations;
- ▶ approving the internal documents that regulate the operations of the Company's bodies;
- ▶ making decisions on statements of delisting of Company's shares and (or) its convertible securities;
- ▶ solving other issues specified by Federal Law "On Joint-Stock Companies".

The issues referred to the competence of the General Meeting of Shareholders cannot be transferred to other bodies of the Company. The General Meeting of Shareholders shall not be entitled to take decisions on issues that are not within its competence.

# THE BOARD OF DIRECTORS and the Committees

In 2018, the Board of Directors held nine meetings, at which issues were resolved and decisions were made in accordance with its competence. All members of the Board of Directors, without exception, took personal part in all meetings.

## MEMBERSHIP OF THE BOARD OF DIRECTORS



**Sergey Dubenok**  
**Member of the Board of Directors**  
(since January 12, 2016)  
**Chairman of the Board of Directors**  
**Non-Executive Body**  
**Member of the Nomination (HR) Committee**

- ▶ Year of birth: 1974.
- ▶ Education: university degree.
- ▶ Primary employment: PJSC Evropeyskaya Elektrotekhnica, Director for Development.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*Interest in the Charter capital of the issuer – 40.6230%.*

*Interest in ordinary shares – 40.6230%.*



**Ilya Kalenkov**  
**Member of the Board of Directors**  
(since January 12, 2016)  
**Executive Body (CEO)**  
(since January 12, 2016)

- ▶ Year of birth: 1970.
- ▶ Education: university degree.
- ▶ Primary employment: Evropeyskaya Elektrotekhnica EC LLC, CEO.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*Interest in the Charter capital of the issuer – 40.9836%.*

*Interest in ordinary shares – 40.9836%.*



**Mikhail Baskov**  
**Member of the Board of Directors**  
(since January 12, 2016 till February 19, 2018; since June 8, 2018)  
**Non-Executive Body**

- ▶ Year of birth: 1978.
- ▶ Education: university degree.
- ▶ Primary employment: Evropeyskaya Elektrotekhnica EC LLC, Commercial Director.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*No interest in the Charter capital of the issuer.*

*No interest in ordinary shares.*



**Vladimir Grubenko**  
**Member of the Board of Directors**  
(since February 19, 2018)  
**Independent Director**  
**Chairman of the Remuneration Committee, member of the Audit Committee, member of the Nomination (HR) Committee**

- ▶ Year of birth: 1970.
- ▶ Education: university degree.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*No interest in the Charter capital of the issuer.*

*No interest in ordinary shares.*



**Andrey Smirnov**  
**Member of the Board of Directors**  
(since June 8, 2018)  
**Non-Executive Body**

- ▶ Year of birth: 1973.
- ▶ Education: university degree.
- ▶ Primary employment: Evropeyskaya Elektrotekhnica EC LLC, Deputy CEO.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*No interest in the Charter capital of the issuer.*

*No interest in ordinary shares.*



**Joel Lautier**  
**Member of the Board of Directors**  
(since February 19, 2018)  
**Senior Independent Director**  
(since June 26, 2018)  
**Chairman of the Audit Committee, chairman of the Nomination (HR) Committee, member of the Remuneration Committee**

- ▶ Year of birth: 1973.
- ▶ Education: university degree.
- ▶ Primary employment: RGG Capital LTD, CEO.

*Interest in the Charter capital of the issuer – 0.0465%.*

*Interest in ordinary shares – 0.0465%.*

**Transactions on purchase (disposal) of ordinary shares of the Company in the reporting period:**

1. Transaction on disposal of 10,000 shares was completed on 17.04.2018.
2. Transaction on disposal of 10,000 shares was completed on 18.04.2018.
3. Transaction on disposal of 30,000 shares was completed on 30.04.2018.
4. Transaction on disposal of 10,000 shares was completed on 03.05.2018.
5. Transaction on disposal of 10,000 shares was completed on 04.05.2018.
6. Transaction on disposal of 20,000 shares was completed on 14.05.2018.
7. Transaction on disposal of 10,000 shares was completed on 15.05.2018.
8. Transaction on disposal of 12,800 shares was completed on 16.05.2018.
9. Transaction on disposal of 27,900 shares was completed on 17.05.2018.
10. Transaction on disposal of 13,900 shares was completed on 18.05.2018.
11. Transaction on disposal of 25,300 shares was completed on 23.05.2018.
12. Transaction on disposal of 13,600 shares was completed on 24.05.2018.
13. Transaction on disposal of 10,000 shares was completed on 25.05.2018.
14. Transaction on disposal of 23,600 shares was completed on 28.05.2018.
15. Transaction on disposal of 27,700 shares was completed on 29.05.2018.
16. Transaction on disposal of 25,900 shares was completed on 30.05.2018.
17. Transaction on disposal of 5,400 shares was completed on 31.05.2018.
18. Transaction on disposal of 6,800 shares was completed on 01.06.2018.
19. Transaction on disposal of 12,600 shares was completed on 04.06.2018.
20. Transaction on disposal of 900 shares was completed on 05.04.2018.
21. Transaction on disposal of 25,000 shares was completed on 07.06.2018.
22. Transaction on disposal of 5,000 shares was completed on 25.06.2018.
23. Transaction on disposal of 10,400 shares was completed on 27.06.2018.
24. Transaction on disposal of 500 shares was completed on 28.06.2018.
25. Transaction on disposal of 10,200 shares was completed on 29.06.2018.
26. Transaction on disposal of 2,400 shares was completed on 02.07.2018.
27. Transaction on disposal of 200 shares was completed on 03.07.2018.
28. Transaction on disposal of 17,400 shares was completed on 05.07.2018.
29. Transaction on disposal of 4,500 shares was completed on 06.07.2018.
30. Transaction on disposal of 300 shares was completed on 09.07.2018.
31. Transaction on disposal of 11,600 shares was completed on 10.07.2018.
32. Transaction on disposal of 1,300 shares was completed on 16.07.2018.
33. Transaction on disposal of 2,300 shares was completed on 18.07.2018.
34. Transaction on disposal of 100 shares was completed on 19.07.2018.
35. Transaction on disposal of 1,000 shares was completed on 20.07.2018.
36. Transaction on disposal of 2,000 shares was completed on 21.08.2018.
37. Transaction on disposal of 4,400 shares was completed on 29.08.2018.
38. Transaction on disposal of 3,600 shares was completed on 30.08.2018.
39. Transaction on disposal of 1,100 shares was completed on 04.09.2018.
40. Transaction on disposal of 200 shares was completed on 05.09.2018.
41. Transaction on disposal of 10,000 shares was completed on 07.09.2018.
42. Transaction on disposal of 900 shares was completed on 20.09.2018.
43. Transaction on disposal of 200 shares was completed on 24.09.2018.
44. Transaction on disposal of 4,700 shares was completed on 01.10.2018.
45. Transaction on disposal of 1,000 shares was completed on 02.10.2018.
46. Transaction on disposal of 2,400 shares was completed on 03.10.2018.
47. Transaction on disposal of 200 shares was completed on 04.10.2018.
48. Transaction on disposal of 1,700 shares was completed on 05.10.2018.
49. Transaction on disposal of 70,000 shares was completed on 19.10.2018.
50. Transaction on disposal of 30,000 shares was completed on 23.10.2018.
51. Transaction on disposal of 70,000 shares was completed on 29.10.2018.
52. Transaction on disposal of 15,000 shares was completed on 08.11.2018.
53. Transaction on disposal of 40,000 shares was completed on 12.11.2018.
54. Transaction on disposal of 83,000 shares was completed on 11.12.2018.
55. Transaction on disposal of 47,300 shares was completed on 17.12.2018.
56. Transaction on disposal of 23,600 shares was completed on 18.12.2018.
57. Transaction on disposal of 15,000 shares was completed on 19.12.2018.
58. Transaction on disposal of 37,500 shares was completed on 20.12.2018.
59. Transaction on disposal of 25,900 shares was completed on 21.12.2018.
60. Transaction on disposal of 331,200 shares was completed on 26.12.2018.



**Margarita Baskova**  
**Member of the Board of Directors**  
(since January 12, 2016 till June 8, 2018)  
**Non-Executive Body**

- ▶ Year of birth: 1975.
- ▶ Education: university degree.
- ▶ Primary employment: Evropeyskaya Elektrotekhnica EC LLC, Chief Accountant.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*No interest in the Charter capital of the issuer.*

*No interest in ordinary shares.*



**Olga Manaenkova**  
**Member of the Board of Directors**  
(since January 12, 2016 till June 8, 2018)  
**Non-Executive Body**

- ▶ Year of birth: 1968.
- ▶ Education: university degree.
- ▶ Primary employment: Evropeyskaya Elektrotekhnica EC LLC, Lighting Facilities Sales Director.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*No interest in the Charter capital of the issuer.*

*No interest in ordinary shares.*



**Nikolay Babenko**  
**Member of the Board of Directors**  
(since January 12, 2016 till February 19, 2018)  
**Non-Executive Body**

- ▶ Year of birth: 1980.
- ▶ Education: university degree.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*No interest in the Charter capital of the issuer.*

*No interest in ordinary shares.*



**Schedule of the Board of Directors Meetings Attendance for 2018**

Full name, period of employment	Dates of meetings										Share of total number of meetings
	23.01.2018	22.02.2018	10.04.2018	07.05.2018	07.05.2018	26.06.2018	31.08.2018	22.10.2018	25.12.2018		
<b>Sergey Dubenok</b> (since 01.01.2018 till 31.12.2018)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	9 of 9 100%
<b>Ilya Kalenkov</b> (since 01.01.2018 till 31.12.2018)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	9 of 9 100%
<b>Vladimir Grubenko</b> (since 19.02.2018 till 31.12.2018)	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	8 of 8 100%
<b>Joel Lautier</b> (since 19.02.2018 till 31.12.2018)	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	8 of 8 100%
<b>Mikhail Baskov</b> (since 01.01.2018 till 19.02.2018; since 08.06.2018 till 31.12.2018)	✓	✗	✗	✗	✗	✓	✓	✓	✓	✓	5 of 5 100%
<b>Andrey Smirnov</b> (since 08.06.2018 till 31.12.2018)	✗	✗	✗	✗	✗	✓	✓	✓	✓	✓	4 of 4 100%
<b>Margarita Baskova</b> (since 01.01.2018 till 08.06.2018)	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	5 of 5 100%
<b>Olga Manaenkova</b> (since 01.01.2018 till 08.06.2018)	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	5 of 5 100%
<b>Nikolay Babenko</b> (since 01.01.2018 till 19.02.2018)	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	1 of 1 100%

**The scope of functions of the Company's Board of Directors includes the following matters:**

- ▶ determining priority directions of the Company's operations;
- ▶ requesting Annual and extraordinary General Shareholder Meetings;
- ▶ approving an agenda for a General Shareholder Meeting;
- ▶ determining (fixing) a date for listing the persons having a right to participate in a General Shareholder Meeting and other functions belonging to the Board of Directors according to Federal Law "On Joint-Stock Companies" and relating to preparing and holding a General Shareholder Meeting;
- ▶ placing bonds or other securities by the Company in cases stipulated by the legislation;
- ▶ determining a price (monetary value) of property, price of issue or a procedure to define it, price of securities acquisition in cases stipulated by Federal Law No. 208-FZ "On Joint-Stock Companies" dated December 26, 1995;
- ▶ increasing the Company's charter capital by placing additional shares within the limits of number and categories (types) of authorised shares;
- ▶ purchasing shares, bonds and other securities placed by the Company in cases stipulated by Federal Law "On Joint-Stock Companies" or other Federal Laws;
- ▶ forming a Sole Executive Body of the Company and defining the appropriate contract terms, as well as early terminating its power;
- ▶ establishing the Company's Board of Directors Committees, approving the internal documents to specify their functions, procedures, and quantitative composition, selecting a Chairman and members, and terminating their powers;
- ▶ defining the principles and the approaches to the structure of risk management, internal control, and internal audit;
- ▶ deciding upon the remuneration to the auditor and making recommendations on the amount of remuneration and compensation to the members of the Company's Audit Commission;
- ▶ approving the Company's Dividend Policy, making recommendations on the amount of dividend on shares and the dividend payment procedure, as well as on specifying a dividend record date;
- ▶ using a reserve fund or other funds of the Company;
- ▶ approving the Company's internal documents, except for the documents to be approved by a General Shareholder Meeting according to Federal Law "On Joint-Stock Companies", as well as other internal documents to be approved by the Company's executive bodies according to the Charter;

- ▶ preliminary approving an Annual Report and submitting it for review at the Company's General Shareholder Meeting;
- ▶ creating the branches and establishing the representative offices;
- ▶ consenting transactions or further approving transactions, as well as approving the conclusions on major transactions in cases specified by Federal Law "On Joint-Stock Companies";
- ▶ consenting transactions or further approving transactions specified by Chapter 11 of Federal Law "On Joint-Stock Companies", as well as approving the report on related-party transactions concluded by the Company in the reporting year;
- ▶ approving the Company's Registrar and approving the Registrar's contract terms, as well as contract termination;
- ▶ taking decisions on participation or terminated participation in other organisations (except for those specified in subpara 18, para 9.1 of the present Charter);
- ▶ stating listing of Company's shares and (or) its convertible securities;
- ▶ adopting recommendations on voluntary or mandatory proposals received by the Company according to Federal Law "On Joint-Stock Companies";
- ▶ making major transactions having criteria specified in para 6.2 of the present Charter.
- ▶ reviewing issues on the Company's corporate governance practice;
- ▶ approving the Company's development strategy and reviewing the issues linked with the strategy implementation and updating;
- ▶ approving the Company's the financial and economic plan (budget), reviewing the criteria and the indicators of the plan implementation;
- ▶ assessing the Company's Risk Management and Internal Control System;
- ▶ reviewing the issues on implementation of policy on the remuneration and reimbursement of expenditures (compensations) for the members of the Board of Directors, executive bodies, and other key executives of the Company;
- ▶ approving the Company's information policy, distributing responsibilities on the policy implementation, reviewing the issues lined with adherence to information policy;
- ▶ other matters stipulated by Federal Law "On Joint-Stock Companies" or other Federal Laws and the present Charter.

# THE COMPANY

## has the Audit Committee of the Board of Directors in place

The members of the Audit Committee are:

- ▶ Joel Lautier (Independent Director) – Chairman;
- ▶ Vladimir Grubenko (Independent Director).

### THE COMMITTEE HAS THE FOLLOWING FUNCTIONS.

With regard to accounting (financial) and consolidated financial statements of the Company:

- ▶ monitoring completeness, accuracy, and reliability of the Company's accounting (financial) and consolidated financial statements;
- ▶ analysing existing aspects of the Company's accounting policy;
- ▶ participating in review of significant issues relating to the Company's accounting (financial) and consolidated financial statements.

With regard to risk management, internal control, and corporate governance:

- ▶ monitoring reliability and efficiency of risk management, internal control, and corporate governance systems, including evaluating efficiency of the Company's risk management and internal control procedures and corporate governance practice and developing the proposals to improve them;
- ▶ analysing and evaluating the Company's policy relating to risk management and internal control;
- ▶ reviewing a necessity to establish a separate department/service (if not available) to manage the risks and submitting the results of the review to the Company's Board of Directors;
- ▶ reviewing the activities and budget plan of the Risk Management Department (service);
- ▶ reviewing the issues on appointment, termination, and remuneration of the Head of the Risk Management Department (service);
- ▶ monitoring the procedures on compliance with the Russian Federation legislation, ethical standards, internal rules and procedures, exchanges requirements;
- ▶ analysing and evaluating implementation of the Company's policy on conflicts of interest management.

With regard to internal and external audits:

- ▶ ensuring independence and objectivity of the internal audit function;
- ▶ reviewing the Company's policy relating to internal audit (Regulations on Internal Audit);
- ▶ reviewing a necessity to establish a separate department/service (if not available) for internal audit and submitting the results of the review to the Company's Board of Directors;
- ▶ reviewing the activities and budget plan of the Internal Audit Department (service);
- ▶ reviewing the issues on appointment, termination, and remuneration of the Head of the Internal Audit Department (service);
- ▶ reviewing existing restrictions of powers or budgets for internal audit, which can adversely affect the internal audit functions;
- ▶ analysing and evaluating internal audit functions efficiency;
- ▶ evaluating independence and objectivity of the internal audit function, as well as absence of conflicts of interest between the external auditors of the Company, including assessing the candidates to the Company's auditors, developing the proposals on approval and dismissal of external auditors, services payment and terms of participation;
- ▶ supervising external audit and evaluating quality of audit and conclusions;
- ▶ ensuring effective interaction between the Internal Audit Department (Service) and external auditors of the Company;
- ▶ developing the Company's policy in relation to audit services rendered to the Company and monitoring its implementation.

With regard to countering unlawful and/or unfair practices of the Company's employees or third parties:

- ▶ evaluating and monitoring efficiency of the system informing about potential cases of unfair practices of the Company's employees or third parties or other violations in the Company;
- ▶ supervising special investigations of potential fraud cases and misuse of insider or confidential information;
- ▶ monitoring the measures taken by the executive bodies or other key executives of the Company to address the information about potential cases of unfair practices of employees or other violations.

The Committee has also a function of monitoring adherence to the Company's information policy.

# THE COMPANY

## has the Remuneration Committee of the Board of Directors in place

The members of the Remuneration Committee are:

- ▶ Vladimir Grubenko (Independent Director) – Chairman;
- ▶ Joel Lautier (Independent Director).

### THE COMMITTEE HAS THE FOLLOWING FUNCTIONS:

- ▶ developing and periodical updating the Company's policy on remuneration of the members of the Board of Directors, executive bodies, or other key executives of the Company, including setting the parameters of short-term and long-term incentives for the members of executive bodies and other key executives of the Company;
- ▶ supervising introduction and implementation of the Company's policy on remuneration and incentive programs;
- ▶ preliminary evaluating the performances of the executive bodies and other key executives of the Company based on criteria of remuneration policy, preliminary evaluating achievement of set goals in the scope of long-term incentive program;
- ▶ developing the terms of early termination of labour contracts with the members of executive bodies and other key executives of the Company, including all material obligations of the Company and appropriate conditions;
- ▶ selecting an independent consultant on the issues of remuneration for the members of executive bodies and other key executives of the Company, and if the Company's policy provides for mandatory tendering, defining the tender terms and acting as a tender committee;
- ▶ developing the recommendations to the Board of Directors on the amount of remuneration of, and bonus scheme for, the Corporate Secretary, as well as preliminary evaluating the Secretary performance by the end of the year and making proposals on Secretary's bonus;
- ▶ preparing a report on implementation of policy of remuneration for the members of the Board of Directors, executive bodies, and other key executives of the Company for introducing into Annual Report and other documents.

### THE COMMITTEE IS OBLIGED TO IMPLEMENT THE FOLLOWING FUNCTIONS:

- ▶ the Committee provides for the policy adopted by the Company for remuneration to ensure transparency of all material gains by clear explanation of used approached and principles and detailed information disclosure on all types of payments, benefits, and privileges provided for the members of the Board of Directors, executive bodies, and other key executives of the Company for their duties;
- ▶ while establishing and updating the remuneration scheme for the members of executive bodies and other key executives of the Company, the Committee shall analyse and give recommendations to the Board of Directors on each component of the remuneration scheme, as well as on their proportional correlation, to obtain a rational balance between the short-term and long-term performances. Herein, we understand short-term performances as ones for the period below three years, and long-term performances as ones for the period above five years;
- ▶ the Committee supervises disclosure of information on remuneration policy and practice, on the Company's shares held by the members of the Board of Directors, executive bodies, and other key executives of the Company in Annual Report and on website used by the Company for information disclosure;
- ▶ the Committee shall assist in making the amount of remuneration paid by the Company sufficient to engage, motivate, and retain persons with the competencies and skills necessary for the Company;
- ▶ the Committee shall assure that the system for remuneration for the members of the Board of Directors ensures convergence of the directors' financial interests and the long-term financial interests of the shareholders;
- ▶ the Committee shall assure that the system for remuneration for the members of executive bodies and other key executives of the Company ensures dependence of the amount of remuneration on the performance of the Company and their personal contribution to achieving the performances;
- ▶ the Committee shall inform the Board of Directors on time about its reasonable concerns and any abnormal circumstances of the Company's activities being known to the Committee due to its powers;
- ▶ the Committee is accountable to the Company's Board of Directors and shall report to the Board on each Committee's meeting held.

# THE COMPANY

## has the Nomination (HR) Committee of the Board of Directors in place

The members of the Nomination (HR) Committee are:

- ▶ Joel Lautier (Independent Director) – Chairman;
- ▶ Vladimir Grubenko (Independent Director);
- ▶ Sergey Dubenok.

### THE COMMITTEE HAS THE FOLLOWING FUNCTIONS:

- ▶ evaluating the current Board of Directors as relates to their specialization, experience, independence, and involvement into the Board of Directors activities, determining the priorities to enhance the Board;
- ▶ interacting with the shareholders not limiting to a range of major shareholders as relates to selection of candidates to the Company's Board of Directors. Interaction shall be aimed at membership of the Board best meeting the goals and the tasks of the Company;
- ▶ analysing skills and independence of all the candidates to the Company's Board of Directors based on all data available to the Committee, as well as making recommendations on voting for the candidates and addressing these recommendations to the shareholders;
- ▶ describing the individual responsibilities of the directors and the Chairman, including defining time to be spent for the Company's issues at meetings and beyond the meetings, as scheduled and unscheduled activities. The description (separate for the members and for the Chairman of the Board of Directors) shall be approved by the Board and handed over for study to each new member of the Board, as well as to a Chairman after election;
- ▶ yearly conducting a detailed formalized self-assessment and external assessment of the Board of Directors and its Committees to evaluate their efficiency and individual contribution of each director to the activities of the Board and the Committees, developing recommendations to the Board regarding improvement of the Board's and the Committees' activities, preparing a report on the results of self-assessment and external assessment to be incorporated in the Annual Report;
- ▶ analysing the current and future needs of the Company as related to professional competence of the Company's executive bodies and other key executives imposed by the Company competitive ability and development, planning continuity of the above-said employees;
- ▶ making recommendations to the Board of Directors as relates to the candidates to the Company's Corporate Secretary position;
- ▶ making recommendations to the Board of Directors as relates to the candidates to the Company's executive bodies and other key executive positions;

- ▶ preparing a report on the results of the Committee activities to be incorporated into the Annual Report and other documents of the Company.

### THE COMMITTEE IS OBLIGED TO IMPLEMENT THE FOLLOWING FUNCTIONS:

- ▶ The Committee shall ensure that the members of the Board of Directors are selected by a transparent procedure considering the entire variety of shareholders' opinions;
- ▶ The Committee shall ensure that the membership of the Board of Directors corresponds to the Russian Federation legislation, to the tasks the Company is faced, as well as to the corporate values of the Company;
- ▶ The Committee shall evaluate the candidates independence and make an appropriate report considering the information submitted by a candidate to the Board of Directors. The Committee shall also regularly analyse correspondence of the independent members of the Board of Directors to independence criteria and immediately disclose any data on revealed circumstances being a reason a particular member of the Board of Directors cannot be independent;
- ▶ The Committee shall preliminary review the methods of the Board of Directors self-assessment and give the recommendations to the Board on approval of the assessment method and selection of an independent consultant to assess the Board's performances;
- ▶ If required, the Committee together with the Chairman of the Board of Directors shall make proposals on improvement of the Board and its Committees performance considering the results of the assessment. Basing on the self-assessment results, the recommendations could be given to improve competence of some members of the Board of Directors and individual trainings could be arranged. The Committee shall supervise these training programs together with the Chairman;
- ▶ The Committee shall inform the Board of Directors on time about its reasonable concerns and any abnormal circumstances of the Company's activities being known to the Committee due to its powers;
- ▶ The Committee is accountable to the Company's Board of Directors and shall report to the Board on each Committee's meeting held.

# THE BOARD

## of Directors' Report on the Results of Work for 2018

The Board of Directors of Evropeyskaya Elektrotekhnica carries out general management of the Company's activities. The main functions of the Board of Directors are to determine the priority areas of activity; manage and control financial and economic operations of the Company; ensure the exercise of the rights of its shareholders; and monitor and control the operations of the administration.

The decisions of the Board of Directors of the Company are aimed at:

- ▶ determining priority directions of the Company's operations;
- ▶ increasing the efficiency of work in the regions of operations on the territory of the Russian Federation and abroad;
- ▶ arranging the work with partners;
- ▶ developing new and improving existing corporate documents of the Company;
- ▶ ensuring the information transparency of the Company.

The competent policy of the management allowed the Company to continue implementing its strategic priorities.

In 2018 the Company achieved great success in corporate government development. We understand importance of the Company's corporate government level for our shareholders and future investors. Therefore, in the beginning of the year the Board of Directors developed a corporate government improvement roadmap. The roadmap sets out ambitious tasks for all participants of the process. The Board of Directors triggered development of a number of internal documents regulating the Company's bodies activities and defining the policy for different spheres of corporate government.

To provide equal and fair treatment of all shareholders in their right to participate in the Company's management, the Regulations on the General Meeting of Shareholders were approved specifying the procedures of General Meeting arrangement, and an easy way for shareholders communication with the Chairman of the Board of Directors, the Senior Independent Director, and the Corporate Secretary was arranged. The Company has made provisions to inform the shareholders about the next meeting and the agenda not later than in 30 days before the date, so the shareholders can prepare to the meeting in a proper way and to send their opinions on the agenda, ask questions to the members of the Board of Directors and the CEO.

The Board of Directors defined main principles and approaches to arrangement of the Company's Risk Management and Internal Control System, developed and approved the Risk Management and Internal Control Policy specifying mandatory principles and determining the approach to the Risk Management and Internal Control System. A new department was established - the Internal Control and Risk Management Service - with its functions and tasks determined.

The Company's Internal Audit Department, which was also created in 2018, evaluated the Risk Management and Internal Control System and made conclusions on the results of audit and recommendations on improvement.

One of the most significant changes in the documents was approval of a new revision of PJSC Evropeyskaya Elektrotekhnica Charter.

The new revision of the Charter incorporated not only new statutes of the Russian Federation legislation, but also a number of notional regulations of the Corporate Government Code, which is recommended to be used by the Central Bank of the Russian Federation.

The main document of the Company expanded a list of issues of the Board of Directors competence and highlighted the most critical ones, the decisions on which could be taken by a majority of all elected members of the Board of Directors, that is a significant factor for management decisions.

The regulations on the Corporate Secretary were incorporated into the Charter for the first time specifying the Corporate Secretary's legal status, role and functions. The main goal of all the regulations of the Charter mentioned above is to show the shareholders and the future investors that observance of the shareholders' rights is one of the critical priorities of the Company.

The new revision of the Regulations on the Board of Directors of PJSC Evropeyskaya Elektrotekhnica contains new significant provisions on the role of the Senior Independent Director in taking the decisions of the Board of Directors, since the independent directors being the representatives of the minority shareholders independent from the management and the majority shareholders are supposed to enhance effective and stable work of the Board of Directors, facilitate a constructive dialogue between the Company's shareholders and management, and increase a level the shareholders can control over the Company's and the Board's activities.

The Company has Audit, Remuneration, and Nomination (HR) Committees of the Board of Directors in place, which are headed by the independent directors and act according to approved internal documents.

The Board of Directors has determined the Company's information policy and a person responsible for the policy implementation, developed and approved the Regulations on the Information Policy.

**In the reporting year, the governing bodies of the Company according to their competences approved the following internal documents:**

- ▶ the Charter (Revision No. 2);
- ▶ the Regulations on the General Meeting of Shareholders;
- ▶ the Regulations on the Board of Directors (Revision No. 1);
- ▶ the Regulations on the Audit Committee;
- ▶ the Regulations on the Remuneration Committee;
- ▶ the Regulations on the Nomination (HR) Committee;
- ▶ the Regulations on the CEO;
- ▶ the Regulations on the Corporate Secretary;
- ▶ the Regulations on remunerations for the members of the Board of Directors;
- ▶ the Policy on the remuneration and reimbursement of expenditures (compensations) for the members of the Board of Directors, executive bodies, and other key executives of the company;
- ▶ the Policy on Internal Audit;
- ▶ the Anticorruption Policy;
- ▶ the Policy on Conflicts of Interest Management;
- ▶ the Regulations on the Information Policy;
- ▶ the Risk Management and Internal Control Policy;
- ▶ the Code of Ethics.

In December 2018, a plan of activities to improve PJSC Evropeyskaya Elektrotekhnica corporate government was developed for year 2019. The plan is aimed at meeting the requirements of the Report on Observing the Corporate Governance Code being a part of the issuer's Annual Report and improving the corporate procedures and documents being effective in the Company.

The Board of Directors declares that PJSC Evropeyskaya Elektrotekhnica observes the principles of corporate government specified in the Code of Corporate Government recommended for use by the Central Bank of the Russian Federation. When these principles are not observed or are observed partially, an explanation on failure to observe shall be provided in the Report on Observing the Code of Corporate Government (being an Appendix to the present Annual Report) principles and recommendations by PJSC Evropeyskaya Elektrotekhnica.

Self-assessment of the Board of Directors and its Committees performances was made in the reporting year. The results of assessment demonstrated that the new corporate government procedures introduced in the Board activities have greatly influenced the increase in the Company's corporate government level in 2018. 100% attendance of the Board of Directors and Committees meetings, active participation of all the Board members, informativity of speeches and open dialogue, contribution of the Chairman and the Senior Independent Director to the Board work in 2018 were also mentioned.

The Board of Directors analysed own needs as related to professional competence, experience, and business skills of the Board of Directors members, correspondence of the quantitative composition of the Board of Directors to the Company's needs and correspondence of the Committees membership to the Board's tasks and the Company's goals. Basing on the results of the analysis, it was decided that the quantitative composition, professional competence, experience, and business skills of the Board of Directors members corresponded to the Company's needs, the Committees membership corresponded to the Company's goals and tasks, and there was no need to create additional committees within the Board.

# CORPORATE Secretary



**Larisa Marusova**

- ▶ Year of birth: 1977.
- ▶ Education: university degree.
- ▶ Primary employment: PJSC Evropeyskaya Elektrotekhnica, Corporate Secretary.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*No interest in the Charter capital of the issuer.*

*No interest in ordinary shares.*

In 2004, graduated from the Moscow State Social University with a degree in Law.

A practicing lawyer. Has great experience in corporate law in different companies.

Since 2014 has experience in corporate government affairs of joint-stock companies.

Since August 2018 is a member of the All-Russian Public Organisation "National Association of Corporate Secretaries".

A Corporate Secretary of PJSC Evropeyskaya Elektrotekhnica is a special position, which has to ensure that the Company's departments and officials comply with the Russian Federation legislation, the Charter and the internal documents guaranteeing execution of the shareholders' rights and legal interests and to arrange the events aimed at avoidance and settlement of any corporate conflicts, arrange interaction between the Company and its shareholders, as well as between the Company's governing bodies.

The Corporate Secretary shall prepare and conduct the General Shareholder Meetings, the activities of the Company's Board of Directors and Committees, disclose information, provide interaction with regulatory authorities, trade institutors, Registrar, and other parties, participate in improving the corporate government system and practice of PJSC Evropeyskaya Elektrotekhnica.

The Corporate Secretary is assigned and terminated by the Company's CEO basing on the decision of the Board of Directors. The Corporate Secretary reports directly to the Board of Directors and acts according to the Regulations on Corporate Secretary of PJSC Evropeyskaya Elektrotekhnica.

# CEO


**Ilya Kalenkov**

- ▶ Year of birth: 1970.
- ▶ Education: university degree.
- ▶ Primary employment: Evropeyskaya Elektrotekhnica EC LLC, CEO.

*No transactions on purchase (disposal) of the Company's shares in the reporting period were made.*

*Interest in the Charter capital of the issuer – 40.9836%.*

*Interest in ordinary shares – 40.9836%.*

The current operations of the Company are managed by the sole executive body – CEO.

CEO is accountable to the Board of Directors and the General Meeting of Shareholders.

The CEO shall act according to the Regulations on CEO of PJSC Evropeyskaya Elektrotekhnica.

# REMUNERATION for Members of Governing Bodies

According to the Company's policy adopted for remuneration and reimbursement of expenditures (compensations) for the members of the Board of Directors, the executive bodies, and other key executives of the Company and the Regulations on Remuneration for the Members of the Board of Directors, the remuneration to the members of PJSC Evropeyskaya Elektrotekhnica Board of Directors for their duties shall be paid only to the members being independent.

The decision on payment of remuneration for the members of the Board of Directors shall be taken by the General Shareholder Meeting of PJSC Evropeyskaya Elektrotekhnica basing on the performances of the Board.

The amount of remuneration for the previous Board members shall be agreed by a General Shareholder Meeting selecting a new membership.

The structure of remuneration scheme for the members of the Board shall not use the elements of remuneration for the executive bodies and other key executives of the Company.

Apart from the remuneration, the members of the Board of Directors can have their expenditures linked with their duties compensated. The types of charges shall be specified by the decision of the Annual General Shareholder Meeting. All charges of the Board of Directors' members being compensated by the Company shall comply with the criteria of reasonableness and fair practices and relate directly to the duties of a Board of Directors member.

Compensation for expenses of the Board of Directors' members implies reimbursement of expenses, which were actually incurred and documented.

Remuneration and compensation (reimbursement) to the members of the Board of Directors shall be paid only basing on the decision of the Company's General Shareholder Meeting.

A member of the Board of Directors shall have a right to refuse of remuneration and/or compensation (reimbursement) provided he/she informed the Chairman of the Board of Directors in writing.

The supreme governing body of the issuer – the General Meeting of Shareholders – made a decision on amount of remuneration for the independent members of the Board of Directors elected on February 19, 2018 at the extraordinary General Shareholder Meeting for their duties in the period from the date of election to the date of termination specified by the Russian Federation legislation; total amount of RUB 2 mln shall be paid according to a procedures specified by the Company's internal documents.

In 2018 the remuneration specified by the decision of the General Shareholder Meeting for participation in the Board of Directors activities was partially paid to the independent members of the Board in amount of RUB 1 mln. The remaining part of remuneration, which is RUB 1 mln, to be paid in 2019.

There were no decisions of the supreme governing body of the issuer – the General Shareholder Meeting – taken in relation to expenses of the Board of Directors to be compensated.

# REMUNERATION

## for the Members of Executive Bodies and other Key Executives

According to the Company's policy adopted for remuneration and reimbursement of expenditures (compensations) for the members of the Board of Directors, the executive bodies, and other key executives of the Company (hereinafter referred to as an Employee), it is deemed that scope and structure of remuneration shall encourage the Employees to implement their own personal goals and consider all the Company's strategies for both involving the specialists with required skills and experience and providing an effective tool to reduce and eliminate possible conflicts of interest.

The remuneration scheme implies that an Employee's salary corresponds to his/her contribution to the Company's corporate strategy implementation, as well as to his/her experience and competitiveness at the labour market.

The remuneration structure is compiled of the following components:

- ▶ the basic (fixed) part of salary;
- ▶ the variable part of salary, which depends on an Employee's performances;
- ▶ additional income made of bonuses.

### PRINCIPLES TO DETERMINE FIXED REMUNERATION

A fixed part of salary is determined basing on monthly market pay rates and depends on competence, job-related experience, and role of an Employee in the tasks he/she is faced. Considering that an Employee's salary is one of the most important factors for raising efficiency and satisfaction from executed work, the amount of fixed salary shall be determined to motivate the Employees to increase their performances.

The fixed part of salary is paid according to an employment agreement.

### PRINCIPLES TO DETERMINE VARIABLE REMUNERATION

The variable part of salary is determined by each Employee's performances. By determining the procedure of variable part payment the Company implements a principle of partial delay of variable part payment (at least 70%) for a particular time period. The Company corrects the variable part of remuneration considering the assessment of a particular Employee's performances, which is based on his/her personal achievements and qualitative indicators, the activity of the entire structure and administration of the Company's budget.

The variable part of remuneration is paid after appropriate assessments, correction of variable part, and approval of the Company's Annual Report.

The Company provides for delay or even cancellation of the variable part payment considering the Company's financial statements.

### ADDITIONAL INCOME, CONSISTING OF AWARDS AND OTHER BONUSES

Additional income, such as bonuses and supplementary payments, can be assigned and paid depending on the results of the Company's financial and business operations and personal contribution of each Employee.

In 2018 remuneration paid to the CEO and the key executive of the Company – Director for Development – amounted to RUB 1.782 mln.

# INTERNAL CONTROL and Risk Management System

The issuer has a structural unit to handle the risks and internal control – the Internal Control and Risk Management Service.

#### The functions of the Company's Internal Control and Risk Management Service are:

- ▶ overall coordination of risk management and internal control processes, including the actions of all participants of the Risk Management System (RMS) and Internal Control System (ICS);
- ▶ development of methodological documents with regard to the risk management and internal control processes and RMS and ICS functioning;
- ▶ analysis of the risk portfolio and development of a strategy of response actions and redistribution of resources to manage the relevant risks;
- ▶ calculation of a preferred risk (risk appetite statements);
- ▶ organisation of the RMS and ICS training for the Company's employees;
- ▶ timely aggregation of information concerning all identified risks and updating of the risk register;
- ▶ monitoring of the risk management and internal control process;
- ▶ preparation of a report, at least once in six months, and informing of the executive bodies about the results of risk management and internal control activities, as well as RMS & ICS efficiency estimation;
- ▶ preparation of an annual report on organisation, functioning and efficiency of the risk management and internal control systems.

The main function of the Internal Control and Risk Management Service is to co-ordinate risk management and internal control and provide appropriate methodological materials.

Over the entire life period, the issuer regularly analyses the risks considering probability and impact. In case the risks are identified, the issuer evaluates them and develops the measures to eliminate or mitigate the negative consequences to acceptable level. The internal control is continuous and is provided at the level of the issuer's structural units heads.

### THE ISSUER'S RISK MANAGEMENT POLICY

The Company's Board of Directors is responsible for determining principles and approaches to risk management and internal control system. The executive bodies of PJSC Evropeyskaya Elektrotekhnica participants create and support the effective risk management and internal control system in the Group of Companies, bear responsibility for implementation of the Board of Directors decisions as relates to risk management and internal control system.

The issuer's risk management system is most of all aimed at revealing potential risks before they occur or at a very early stage. The issuer regularly analyses the risks considering probability and impact. In case the risks are identified, the issuer evaluates them and develops the measures to eliminate or mitigate the negative consequences to acceptable level.

The essence of the risk management system of PJSC Evropeyskaya Elektrotekhnica is to implement a continuous process relating to all activities of the issuer and aimed at risks identification, assessment and development of measures to mitigate the risks and probability of their occurrence.

As part of the risk management and internal control system, the interaction is provided both within the Group of Companies and with external parties according to regulatory documents.

The risk management and internal control of the Group of Companies is a multi-level system. It implies continuous data exchange between all parties (management bodies and structural units of the Group of Companies, participants of the Group of Companies).

Basing on information, which is submitted from the functional units of the Group about business-processes being implemented in the Group of Companies, availability and execution of internal control procedures, the Risk Management and Internal Control Service analyses the existing risks and tests the control procedures (evaluate their efficiency) aimed to mitigate the risks. Considering the results of the analysis, the Risk Management and Internal Control Service states recommendations on improvement of the risk management and internal control procedures.

The Company adheres to the principles of maximum transparency while interacting with the external related parties, which are the state regulatory authorities, the external auditors, the banks, the insurance companies, the shareholders, the investors. The local regulatory acts approved by the governing bodies of the Group of Companies are the basis for this interaction. One of the key tasks is to disclose true essential information on the Group of Companies activities to the external parties observing the regulatory documents on information disclosure.

# INTERNAL Audit

## THE ISSUER HAS THE INTERNAL AUDIT DEPARTMENT IN PLACE

The purpose of internal audit is to assist the Company's Board of Directors and executive bodies in improving management of the Company and S&A and their financial and business activities through systematic and consistent analysis and assessment of risk management, internal controls, and corporate governance as tools for providing reasonable assurance that the goals set for the Evropeyskaya Elektrotekhnica Group of Companies will be achieved.

**According to the internal audit policy of PJSC Evropeyskaya Elektrotekhnica, the tasks of the Company's Internal Audit Service are as follows:**

- ▶ assistance to the Company's executive bodies and employees in developing and monitoring execution of procedures and activities for improvement of the risk management and internal control system, corporate governance of the Company;
- ▶ co-ordination of activities with the Company's external auditor and the parties consulting on risk management, internal control and corporate governance issues;
- ▶ internal audit of subordinated companies under the established procedure of internal audit;

- ▶ preparation of the reports on the results of Internal Audit Service activities (including the report on significant risks, disadvantages, results, and efficiency of measures to eliminate the disadvantages, results of internal audit plan implementation, results of assessments of actual conditions, reliability and efficiency of risk management, internal control and corporate governance system) and submission of the report to the Board of Directors and the executive bodies;
- ▶ check of observance of legislation and internal policy of the Company by the Company's executive bodies and employees as relates to insider information, anti-corruption, and the Company's Code of Ethics requirements.

**The Company's Internal Audit Service functions are:**

- ▶ internal independent assessment of risk management and internal control system efficiency and recommendations on RMS and ICS performance improvement;
- ▶ distribution of information on RMS and ICS to the executive bodies and the Board of Directors (the Audit Committee).

# INDEPENDENT Audit

The Auditor, which has conducted an independent audit of the issuer's accounting (financial) statements for year 2018 and the consolidated financial statements for the first six months of year 2018 and for reporting year 2018, is as described hereby.

Full company name: Limited Liability Company Accountants and Business Advisors.

Short company name: LLC Accountants and Business Advisors.

Address: 44/1, 2AB, Myasnitskaya St., Moscow, 101990.

TIN: 7701017140

Primary state registration number: 1027700058286

Phone: +7 (495) 737-53-53

Fax: +7(495)737-5347

E-mail: [fbk@fbk.ru](mailto:fbk@fbk.ru)

The Auditor is a member of Self-Regulating Auditors' Organisation

Full name: Self-Regulatory Organisation of Auditors Association "Sodruzhestvo"

Address: 21 Michurinskiy Pr., building 4, Moscow, 119192.

An Auditor is selected by the General Meeting of Shareholders basing on proposals from the Board of Directors. No tendering procedures shall be applied.

The Auditor's remuneration amount shall be determined by the issuer's Board of Directors in compliance with subpara 10, para 1, Clause 65 of Federal Law No. 208-FZ "On Joint-Stock Companies" dated December 26, 1995.

Actual remuneration for the Auditor by the results of the past reporting year, which was a subject of independent audit of accounting (financial) statements, amounted to RUB 947,000 (incl. VAT RUB 150,000), among them:

RUB 120,000 – remuneration for audit of accounting (financial) statements for year 2018 under Russian Accounting Standards (RAS);

RUB 827,000 – remuneration for audit of consolidated financial statements for year 2018 under International Financial Reporting Standards (IFRS).



# FOR SHAREHOLDERS AND INVESTORS

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# CHARTER CAPITAL

## of PJSC Evropeyskaya Elektrotekhnica

The Company's charter capital amounts to RUB 610,000,000 (six hundred and ten millions). It is divided into 610,000,000 (six hundred and ten millions) ordinary shares each of RUB 1 (one) par value.

- ▶ Nominal value of a share – RUB 1.
- ▶ Number of authorised shares – 2,400,000,000.
- ▶ Number of voting shares: 610,000,000 ordinary shares.
- ▶ Number of shares held by the issuer – 0 (zero).
- ▶ Number of shares held by the legal entities controlled by the issuer – 68,901,151.

### Shareholding Structure

- ▶ Amount of charter capital – RUB 610,000,000.
- ▶ Total number of shares placed – 610,000,000.
- ▶ Share category and type – registered ordinary.
- ▶ Form of share issue – uncertificated.

### Structure of PJSC Evropeyskaya Elektrotekhnica shareholders as of December 31, 2018

Shareholder category	Interest in the Charter capital, %
Private investors	85.54
Legal entities	14.46

Persons directly or indirectly holding the shares of PJSC Evropeyskaya Elektrotekhnica in amount equal to or exceeding 5 (five) percents of the charter capital

Interest in ordinary shares of the issuer: 11.3%.

#### Indirect holding of ordinary shares:

1. Limited Liability Company "Evropeyskaya Elektrotekhnica - North-West"

Short company name: LLC Evropeyskaya Elektrotekhnica - North-West

Address: 30 Staro-Petergofsky Pr., Building. 1, Lit. A, Room 18N, St. Petersburg, Russia, 190020

TIN: 7810036696

Primary state registration number: 1057812310269

Percentage of indirect shares holding is 11.2%, implemented by 99% participation of the above-said legal entity in the charter capital of the LLC Evropeyskaya Elektrotekhnica's shareholder.

The CEO of PJSC Evropeyskaya Elektrotekhnica declares that the Company has no information about percentage of shares holding exceeding 5 (five) percents apart from disclosed one.

PJSC Evropeyskaya Elektrotekhnica is not aware of any shareholders that may purchase or purchased a degree of control disproportionate to their shareholdings in the Company, including pursuant to shareholder agreements.

#### Direct holding of ordinary shares:

1. Ilya Kalenkov

Interest in the Charter capital of the issuer: 40.98%.

Interest in ordinary shares of the issuer: 40.98%.

2. Sergey Dubenok

Interest in the Charter capital of the issuer: 40.62%.

Interest in ordinary shares of the issuer: 40.62%.

3. Limited Liability Company "Evropeyskaya Elektrotekhnica"

Short company name: LLC Evropeyskaya Elektrotekhnica.

Address: 22 Kashirskoye Sh., Room 4, Building 3, Moscow, 115201

TIN: 7724932427

Primary state registration number: 1147746927790

Interest in the Charter capital of the issuer: 11.3%.

# KEY SUBSIDIARIES

## of PJSC Evropeyskaya Elektrotekhnica



# SECURITIES

In the Russian Federation, ordinary shares of Evropeyskaya Elektrotekhnica are traded on the Moscow Exchange under the ticker EELT.

ISIN code: RU000A0JWW54

Date of beginning of trading: September 7, 2017.

Share category and type – registered ordinary.

Form of share issue – uncertificated.

Nominal value of a share – RUB 1.

Total number of shares issued – 610,000,000.

State registration number of the issue – 1-01-83993-H.

Date of state registration – March 2, 2016.

Registrar – VTB Registrar, JSC.

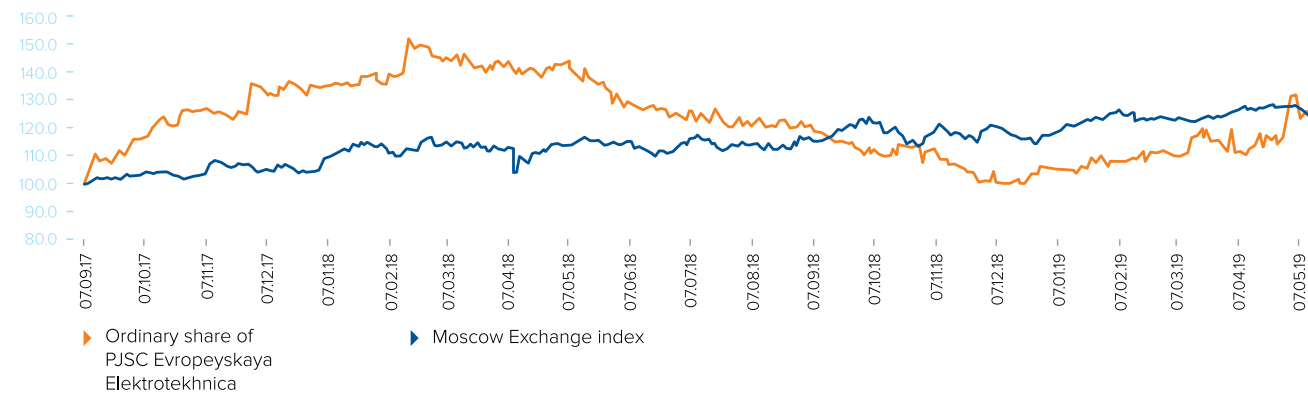
# SHARE MARKET and Market Capitalisation

The ordinary shares of Evropeyskaya Elektrotehnica are traded on the Moscow Exchange under the ticker EELT.

The market capitalisation of Evropeyskaya Elektrotehnica as of December 31, 2018 amounted to RUB 6,295.2 mln.

The market capitalisation is calculated as the number of shares of corresponding category (type) multiplied by the market value of one share disclosed by the trade institutor, Public Joint-Stock Company "Moscow Exchange MICEX-RTS" (Moscow Exchange, PJSC).

## Relative dynamics of Evropeyskaya Elektrotehnica ordinary share value at the Moscow Exchange from the moment of IPO till May 15, 2019 (100% relates to the level of RUB 9.5 per share as of September 7, 2017)



# DIVIDEND POLICY and Profit Allocation

The Dividend Policy of Evropeyskaya Elektrotehnica defines the key principles of the Company as relates to payment of dividends on common stock. The policy shall ensure maximum transparency of decision making process in issues of paying out (declaring) dividends, determining the amount and the procedure of payment.

The Company's Dividend Policy is driven by the following principles:

- ▶ when paying out (declaring) dividends, ensure compliance with the requirements of the Russian legislation, the Company's Charter and internal documents;
- ▶ maintain the balance of short- and longterm interests of shareholders;
- ▶ support shareholder commitment to improving the Company's profitability;

- ▶ increase the Company's investment appeal;
- ▶ provide for an upward trend in dividend payouts, subject to growth of the Company's net profit;
- ▶ make dividend payouts in a way most convenient for the shareholders;
- ▶ pay out dividends in the shortest possible time;
- ▶ maximize the transparency of the dividend calculation process;

According to the approved Dividend Policy, the Company allocates at least 20% of consolidated net profit under IFRS to dividends payment<sup>1</sup>.

## Report on payment of declared (accrued) dividends on shares

Dividends	2018 (for year 2017)	2018 (for Q1 2018)
Total amount of dividends, RUB	396,500	91,500,000
Dividend per share, RUB	0.00065	0.15000
Percentage of net profit, %	92.86	75.98
Date of dividends declaring	08.06.2018	08.06.2018
Dividend record date	25.06.2018	25.06.2018
Date of actual dividends payment	29.06.2018	29.06.2018

1. The decision was taken by the Board of Directors of PJSC Evropeyskaya Elektrotehnica (Minutes No. 8 dated September 6, 2017).

# SHAREHOLDERS' RIGHTS

## According to the Company's Charter, the shareholders have a right to:

- ▶ obtain the receivable part of distributed profit (dividends) from the Company's activities according to the procedure specified by the present Charter.
- ▶ receive information relating to the Company's activities in a scope, terms, and as per procedures specified by the legislation.
- ▶ obtain a part of property or other assets of the Company to be distributed in case of liquidation of the Company proportionally to a number of shares they hold.
- ▶ participate in the Company's management according to the Company's Charter and the Russian Federation legislation.
- ▶ participate in the General Shareholder Meeting on all issues of their competence personally or through an authorised representative.
- ▶ offer proposals for review by the General Meeting of Shareholders, the Board of Directors and other Company's units according to the procedure specified by the Charter, other local acts of the Company, and the Russian Federation legislation.
- ▶ make an unremunerated contribution to the Company's property in monetary or any other form to finance and support the Company's activities at any time and on the ground of a contract with the Company complying with Federal Law "On Joint-Stock Companies", if the contribution does not increase the Company's charter capital and does not change nominal value of shares.
- ▶ exercise other rights according to the Russian Federation legislation.

# CREDIT RATING

## CURRENT RATING

### Rating object: issuer.

Credit Rating Company

Full company name: Analytical Credit Rating Agency (Joint-Stock Company).

Short company name: ACRA (JSC).

Address: 75 Sadovnicheskaya Embankment, Moscow, 115035.

Information about the methods of credit rating is posted on the website: <https://www.acra-ratings.ru/criteria>

Rating assignment date: October 11, 2018.

Value of the assigned credit rating: **BB+ (RU)**, stable outlook.

[Events After the Reporting Date]

Date of credit rating increase: February 1, 2019.

Value of the increased credit rating: **BBB- (RU)**, stable outlook.

## WITHDRAWN CREDIT RATING<sup>1</sup>

### Rating object: issuer.

Credit Rating Company:

Full company name: Joint Stock Company Expert RA Rating Agency.

Short company name: JSC Expert RA.

Address: 12 Blagoveschenskiy lane, building 2, Moscow, 123001; actual address: 14 Bumazhny proezd, building 1, Moscow, 127015.

Information about the methods of credit rating is posted on the website: <https://raexpert.ru/ratings/credits/method>

Value of credit rating: RUB

Rating assignment date: August 7, 2017.

On August 6, 2018, RAEX Rating Agency (Expert RA) withdrawn the credit rating of non-financial organisation Evropeyskaya Elektrotekhnic without confirmation due to expiration of rating and absence of information to be used for the current methodology.

1. The credit rating has been withdrawn due to expiration of the rating services contract between Evropeyskaya Elektrotekhnic and JSC Expert RA.

# INFORMATION Transparency

In October 2018, the decision of the Board of Directors of PJSC Evropeyskaya Elektrotekhnic approved the Regulations on the Information Policy.

The Information Policy is aimed at satisfying the needs of shareholders, investors, and other related parties in obtaining complete, up-to-date, and true information about the Company's activities.

For providing efficient information exchange of the Company's with shareholders, investors, and other related parties and maintaining high level of confidence to the Company to increase its shareholder value, Evropeyskaya Elektrotekhnic seeks to disclose any relevant information, which can influence the value of the Company's securities.

The Company is committed to open dialogue with shareholders, investors, and other related parties. In view of these goals, the Company:

- ▶ arranges regularly meetings, phone and online conferences, and other public events involving the members of the Company's governing bodies;
- ▶ regularly updates a calendar of corporate events on its corporate website.

The Company gives an opportunity to the shareholders to ask questions to the Chairman of the Board of Directors and the Corporate Secretary and make statements on this issues.

Prior to General Shareholder Meetings, the shareholders can express their opinion on the issues of agenda.

When the shareholders have any questions, proposals, statements, the Company will offer to use any kind of communication, which is more convenient, with an authorised person by the contacts given on the Company's website <http://euroetpao.ru/> in sections "For investors/IR contacts".

## INVESTOR RELATIONS DEVELOPMENT

February 2018 – the meeting of the Company's management and the investors at the Moscow Exchange.

August 2018 – the Company's management addressed to the shareholders with business and financial performances by the results of H1 2018 according to IFRS.

October 2018 – the Company's management arranged online conference for the investors on the FINAM Investment Company portal.

December 2018 – Ilya Kalenkov, the CEO, announced preliminary results of the Company's performances for year 2018. The interview was posted in Business-Online newspaper ( <https://www.business-gazeta.ru/article/407670> ).

February 2019 – [Events After the Reporting Date] – Ilya Kalenkov, the CEO, addressed to the investors of FINAM company with a video interview ( [https://www.youtube.com/watch?v=lp9bi4\\_PbHM](https://www.youtube.com/watch?v=lp9bi4_PbHM) ).

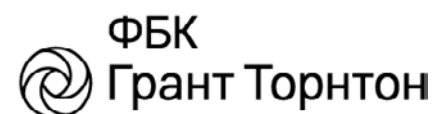
October 2018 – first ACRA credit rating was obtained at level **"BB+" (RU)** with a "stable" outlook according to National rating scale of the Russian Federation.

February 2019 – [Events After the Reporting Date] – ACRA upgraded the Company's rating to investment level **"BBB-" (RU)** with a "stable" outlook.



# APPENDIX

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## Independent Auditor's Report

For the shareholders of Public Joint-Stock Company Evropeyskaya Elektrotehnica

### Opinion

We have audited the accompanying Annual Consolidated Financial Statements of Public Joint-Stock Company Evropeyskaya Elektrotehnica (PJSC Evropeyskaya Elektrotehnica) and its subsidiaries (the Group), which comprise the consolidated financial statement as at 31 December 2018 and the consolidated statements of income, loss, comprehensive incomes, changes in equity, and cash flows in 2018, as well as the notes to the Annual Consolidated Financial Statements composed of a summary of significant accounting policies and other explanatory information (hereinafter - the Annual Consolidated Financial Statements).

In our opinion, the accompanying Annual Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, as well as its consolidated financial performance and consolidated cash flows for the year 2018, in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organisations and The Code of Professional Ethics of the Auditors, which comply with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Important Circumstances

We draw attention to explanatory note 3.2 of the Annual Consolidated Financial Statements describing the procedure of comparative information presentation in the Annual Consolidated Financial Statements. We do not modify our opinion in the context of these circumstances.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Annual Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Annual Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Recognition of revenues from sales – explanatory note 8 of the Annual Consolidated Financial Statements

We consider this matter to be significant for our audit due to increase of sales revenue in 2018.

We have checked completeness and accuracy of revenues from sales by studying the Group's contract obligations and the goods purchase/sale documents; analysed the mechanisms of debt repayment by goods buyers; reviewed correlation between the revenues and the goods cost of sales; evaluated the purchase/sale transactions before and after the reporting date.

Also we have evaluated sufficiency of the Group disclosures relating to amount and types of revenues from sales.

Basing on the procedures implemented, we have concluded that the Group's Annual Consolidated Financial Statements disclose the revenue information in an appropriate way.



### Other Information

The management is responsible for the other information. The other information includes the information given in the PJSC Evropeyskaya Elektrotehnica Annual Report 2018 and in the Issuer's Quarterly Report Q2 2019, and excludes the Group's Annual Consolidated Financial Statements 2018 and the Auditor's Report on the Statements. The PJSC Evropeyskaya Elektrotehnica Annual Report 2018 and the Issuer's Quarterly Report are supposed to be submitted to us after the date of the present Auditor's Report issue.

Our opinion on the Annual Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Annual Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Should we conclude that there is a material misstatement of this other information in the PJSC Evropeyskaya Elektrotehnica Annual Report 2018 or in the Issuer's Quarterly Report Q2 2019, we are required to report that fact to those charged with corporate governance.

### Responsibilities of Management and Those Charged with Corporate Governance of the Entity under Audit and the Annual Consolidated Financial Statements

The management is responsible for preparation and fair presentation of the present Annual Consolidated Financial Statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of Annual Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Annual Consolidated Financial Statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with corporate governance are responsible for overseeing the annual consolidated financial reporting process.

### Auditor's Responsibilities for the Audit of the Annual Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Annual Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Annual Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the Annual Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;



b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the entity under audit;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the entity under audit;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the entity under audit to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Annual Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity under audit to cease to continue as a going concern.

e) evaluate the overall presentation, structure and content of the Annual Consolidated Financial Statements, including the disclosures, and whether the Annual Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Annual Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the persons charged with corporate governance of the entity under audit regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the persons charged with corporate governance of the entity under audit with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the persons charged with corporate governance of the entity under audit, we determine those matters that were of most significance in the audit of the Annual Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

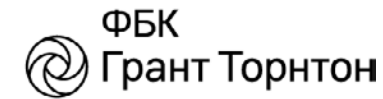
Executive Director of FBK, LLC

I.O. Livkin  
on the basis of the power of attorney No. 13/19 dated  
January 09, 2019,  
Auditor's Qualification Certificate  
No. 06-000361, ORNZ 2166020201

Engagement partner

V.A. Bakaev  
Auditor's Qualification Certificate  
No. 01-001031,  
ORNZ 21606047616

Date of the Independent Auditor's Report:  
30 April 2019



## Entity under audit

### Name:

Public Joint-Stock Company Evropeyskaya  
Elektrotekhnika (PJSC Evropeyskaya  
Elektrotekhnika).

### Address:

1 Lyotchika Babushkina street, Building 3, ground 3,  
premise 9, office 23, Moscow, 129344.

### Official registration:

State registration certificate series 77  
No. 017678656 issued by Moscow Interdistrict  
Inspectorate No. 46 of the Russian Federal Tax  
Service on January 12, 2016. The registration entry  
was made in the Unified State Register of Legal  
Entities on January 12, 2016 under primary state  
registration number 1167746062703

## Auditor

### Name:

Limited Liability Company Accountants and Business  
Advisors (FBK, LLC)

### Address:

44/1, 2AB, Myasnitskaya St., Moscow, 101990.

### Official registration:

State registration certificate series YuZ 3  
No. 484.583 RP issued by Moscow Registration  
Chamber on November 15, 1993. The registration  
entry was made in the Unified State Register of Legal  
Entities on July 24, 2002 under primary state  
registration number (OGRN) 1027700058286

### Membership in self-regulatory organization of auditors:

Self-Regulatory Organisation of Auditors Association  
"Sodruzhestvo"

### Number in the register of Self-Regulating Auditors' Organisation:

Certificate of membership in the Self-Regulatory  
Organisation of Auditors Association "Sodruzhestvo"  
No. 7198, number in the register – 11506030481

# FINANCIAL reporting

## Consolidated Statement of Profit or Loss and other Comprehensive Income (RUB '000)

	Note	For the year ended	
		31 December 2018	31 December 2017
Revenue from sales	8	3,286,684	2,595,265
Cost of sales		(2,490,347)	(2,127,358)
Gross profit		796,337	467,907
Administrative and selling expenses	9	(422,129)	(268,405)
Other income (expenses)	10	(3,743)	107,355
Operating profit		370,465	306,857
Finance income	11	11,774	33,599
Finance expenses	11	(23,230)	(170,463)
Income before income tax		359,009	169,993
Profit tax	12	(65,911)	(35,260)
Profit for the year		293,098	134,733
Other comprehensive income, net of profit tax		–	(39,386)
Total comprehensive income for the period		293,098	95,347
Total comprehensive income attributable to:			
- the Group's shareholders		295,621	95,347
- Non-controlling interest		(2,524)	–
Earnings per share:			
basic (in roubles per share)		0.55	0.27
diluted (in roubles per share)		0.55	0.27

## Consolidated Statement of Financial Position (RUB '000)

Assets	Note	31 December 2018	31 December 2017
<b>Non-current assets</b>			
Fixed assets	13	109,863	108,458
Long-term financial assets	14	4,724	1,256
Deferred tax assets	12	2,983	933
Total non-current assets		117,570	110,647
<b>Current assets</b>			
Inventories	15	270,346	100,390
Accounts receivable and prepayments	16	653,120	721,008
Short-term financial assets	14	2,555	12,554
Other current assets		838	520
Cash and cash equivalents	17	246,758	209,782
<b>Total current assets</b>		<b>1,173,617</b>	<b>1,044,254</b>
<b>Total assets</b>		<b>1,291,187</b>	<b>1,154,901</b>
<b>Liabilities and equity</b>			
<b>Capital</b>			
Share Capital	18	610,000	610,000
Additional paid-in capital	18	127,194	129,468
Treasury shares	18	(508,490)	(589,006)
Business combination reserve	18	–	141,440
Revaluation reserve		69,833	69,833
Retained earnings		384,251	179,793
Non-controlling interest		11,843	–
<b>Total equity</b>		<b>694,631</b>	<b>541,528</b>
<b>Non-current liabilities</b>			
Long-term loans and borrowings	19	41,007	38,165
Long-term finance leases payable	21	50,291	50,640
Other non-current liabilities		–	–
Deferred tax liabilities	12	47,071	46,110
<b>Total non-current liabilities</b>		<b>138,369</b>	<b>134,915</b>
<b>Current liabilities</b>			
Short-term loans and borrowings	19	2,016	373
Accounts payable and estimated liabilities	20	455,822	441,933
Short-term finance leases payable	21	349	278
Net assets owned by participants		–	35,874
<b>Total current liabilities</b>		<b>458,187</b>	<b>478,458</b>
<b>Total equity and liabilities</b>		<b>1,291,187</b>	<b>1,154,901</b>

**Consolidated Statement of Cash Flows (RUB '000)**

	Note	For the year ended	
		31 December 2018	31 December 2017
<b>Cash generated from operations:</b>			
<b>Profit (loss) before tax</b>		<b>359,009</b>	<b>169,993</b>
Adjustments to reconcile net profit to operating profit:			
Depreciation of fixed and intangible assets	13	11,814	15,047
Loss on disposal of non-current assets		(381)	856
Other operating (income) / expenses		–	(510)
Finance income / expenses	11	7,059	139,626
Foreign exchange differences		(3,738)	(3,135)
Loss (gain on loss reversal) on impairment of accounts receivable and loans issued	16, 20	(6,617)	16,564
Acquisition of subsidiaries		(84,112)	–
<b>Cash flows from operating activities before profit tax and changes in working capital and in other assets and liabilities</b>		<b>283,034</b>	<b>338,441</b>
<b>Changes in working capital</b>			
Decrease / (increase) in trade and other receivables		82 391	99,872
Decrease / (increase) in inventories		(169,956)	(4,704)
Increase / (decrease) in trade and other payables and estimated liabilities		27,337	(307,736)
Increase / (decrease) in net assets owned by participants		(84,361)	–
Interest paid		–	–
Profit tax paid		(82,579)	(30,380)
Total cash used for operating activities		55,866	95 493
Investing cash flow			
Acquisition of fixed and intangible assets		(9,748)	(3,943)
Proceeds from sales of fixed assets		381	1,542
Loans issued		–	(180,641)
Repayment of loans issued		3,011	46,633
Acquisition of a subsidiary		(36,000)	(136,000)
Interest received		4,199	17,798
Total investing cash flow		(38,157)	(254,611)
<b>Financing activities</b>			
Finance lease payments		(11,947)	(14,451)
Proceeds from sales of shares		129,000	169,307
Dividends and similar payments to participants		(101,765)	(21,664)
<b>Net cash from financing activities</b>		<b>15 288</b>	<b>133,192</b>
<b>Change in cash and cash equivalents</b>		<b>32 997</b>	<b>(25,926)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>209,782</b>	<b>234,951</b>
Effect of changes in foreign exchange rates on balances of cash and cash equivalents		3,979	757
<b>Cash and cash equivalents at the end of the period</b>		<b>246,758</b>	<b>209,782</b>

**Consolidated Statement of Changes in Stockholders' Equity (RUB '000)**

	Share Capital	Additional paid-in capital	Business combination reserve	Treasury shares	Other provisions	Retained earnings	Non-controlling interest	Total
<b>As at 1 January 2017</b>	<b>610,000</b>	<b>–</b>	<b>(596,858)</b>	<b>–</b>	<b>109,219</b>	<b>91,967</b>	<b>–</b>	<b>214,328</b>
Net profit of the current period	–	–	–	–	–	134,733	–	134,733
Revaluation reserve	–	–	–	–	(39,386)	–	–	(39,386)
Treasury shares	–	–	–	(589,006)	–	–	–	(589,006)
Dividends and similar payments to participants	–	–	–	–	–	(21,664)	–	(21,664)
Additional paid-in capital	–	129,468	–	–	–	–	–	129,468
Acquisition of entities under common shareholders' control	–	–	738,298	–	–	(22,980)	–	715,318
Transfer of net assets of entities under common shareholders' control to Liabilities	–	–	–	–	–	(2,263)	–	(2,263)
<b>As at 31 December 2017</b>	<b>610,000</b>	<b>129,468</b>	<b>141,440</b>	<b>(589,006)</b>	<b>69,832</b>	<b>179,793</b>	<b>–</b>	<b>541,528</b>
	Share Capital	Additional paid-in capital	Business combination reserve	Treasury shares	Other provisions	Retained earnings	Non-controlling interest	Total
<b>As at 1 January 2018</b>	<b>610,000</b>	<b>129,468</b>	<b>141,440</b>	<b>(589,006)</b>	<b>69,832</b>	<b>179,793</b>	<b>–</b>	<b>541,528</b>
Net profit of the current period	–	–	–	–	–	295,621	(2,524)	293,097
Revaluation reserve	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	80,516	–	171	–	80,687
Dividends and similar payments to participants	–	–	–	–	–	(101,765)	–	(101,765)
Additional paid-in capital	–	(2,274)	–	–	–	–	–	(2,274)
Acquisition of subsidiaries	–	–	(141,440)	–	–	15,416	14,367	(111,657)
Transfer of net assets of entities	–	–	–	–	–	(4,985)	–	(4,985)
<b>As at 31 December 2018</b>	<b>610,000</b>	<b>127,194</b>	<b>–</b>	<b>(508,490)</b>	<b>69,832</b>	<b>384,251</b>	<b>11,843</b>	<b>694,631</b>



# NOTES

## to the Consolidated Financial Statements for 2018 (RUB '000)

### GENERAL INFORMATION ON PJSC EVROPEYSKAYA ELEKTROTEKHNICA AND ITS SUBSIDIARIES

PJSC Evropeyskaya Elektrotehnica (the Company) together with its subsidiaries (referred to as the Group) is an engineering and manufacturing company, which operates in the Russian Federation and in CIS and foreign countries. The main areas of the Group's activities include manufacture and installation of transformer substations and low-voltage complete devices, manufacture of electric heating systems, delivery of electric materials and equipment for electricity and power supply systems, and execution of design, installation and commissioning activities. The Company is engaged in production and installation of packaged oil and gas equipment.

The Company was established in 2004 and registered on the territory of the Russian Federation.

In 2015, the Group's management initiated a legal restructuring process, according to which the ownership of interests in charter capitals of entities controlled by Ilya Kalenkov and Sergey Dubenok was transferred to the parent company of the Group - JSC Evropeyskaya Elektrotehnica (hereinafter - the Company) created in accordance with the decision of the sole participant dated 22 December 2015.

On 9 March 2016, the private company was converted into a public company by the decision of the sole shareholder. As a result, the Company was renamed into PJSC Evropeyskaya Elektrotehnica.

As at 31 December 2018 and 31 December 2017, the ultimate controlling parties of the Group are Ilya Kalenkov and Sergey Dubenok.

The functions of Evropeyskaya Elektrotehnica's sole executive body are performed by Ilya Kalenkov, Chief Executive Officer.

The Company's office address is: 1 Lyotchika Babushkina Ul., Building 3, Moscow, 129344.

As at 31 December 2018, the Group comprises the following subsidiaries:

Group's entity	Share of the capital, %	Address		Key activities	
<b>PJSC Evropeyskaya Elektrotehnica</b>					
LLC EC Evropeyskaya Elektrotehnica	100	14 Dorogobuzhskaya Ul., Building 1, Room 103, Moscow, Russia, 121354		Wholesale trade of non-food products (OKVED 46.4)	
LLC Evropeyskaya Elektrotehnica - North-West	100	30 Staro-Petergofsky Pr., Building. 1, Lit. A, Room 18H, St. Petersburg, Russia, 190020		Wholesale trade of other building materials and products (OKVED 46.73.6)	
		<b>LLC Evropeyskaya Elektrotehnica - North-West</b>	<b>Ilya Kalenkov</b> <b>Sergey Dubenok</b>		
LLC Evropeyskaya Elektrotehnica	99	0.5	0.5	22 Kashirskoye Sh., Room 4, Building 3, Moscow, 115201	Wholesale trade of other household goods (OKVED 46.49)
		<b>LLC EC Evropeyskaya Elektrotehnica</b>	<b>Habir Kilmukhametov</b>		
LLC ROG-Engineering	95	5		23 Khadiya Davletshina B-r, Office 3, Ufa, Republic of Bashkortostan, Russia, 450097	Manufacture of machinery and equipment for mining and construction (OKVED 28.92)

As at 31 December 2017, the Group comprises the following subsidiaries and entities under common control.

Group's entity	Share of the capital, %	Address		Key activities	
		<b>PJSC Evropeyskaya Elektrotehnica</b>	<b>Ilya Kalenkov</b> <b>Sergey Dubenok</b>		
LLC EC Evropeyskaya Elektrotehnica	100	–	–	17 Marshala Timoshenko Ul., Office 9, Building 2, Moscow, Russia, 121359	Wholesale trade of non-food products (OKVED 46.4)
LLC Evropeyskaya Elektrotehnica - North-West	–	50	50	47A Stachck Pr., Saint Petersburg, Russia, 198097	Wholesale trade of other building materials and products (OKVED 46.73.6)
		<b>LLC Evropeyskaya Elektrotehnica - North-West</b>	<b>Ilya Kalenkov</b> <b>Sergey Dubenok</b>		
LLC Evropeyskaya Elektrotehnica	99	0.5	0.5	22 Kashirskoye Sh., Room 4, Building 3, Moscow, 115201	Wholesale trade of other household goods (OKVED 46.49)

LLC EC Evropeyskaya Elektrotekhnica was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 46 in Moscow on 5 May 2008 under principal state registration number 1087746603340, state registration certificate series 77 No. 010745956.

Grounds for recognising the company as a subsidiary: the share of PJSC Evropeyskaya Elektrotekhnica in the charter capital is 100%.

LLC Evropeyskaya Elektrotekhnica - North-West was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 15 in Saint Petersburg on 6 September 2005 under principal state registration number 1057812310269, state registration certificate series 78 No. 005598835.

Grounds for recognising the company as a subsidiary: the share of PJSC Evropeyskaya Elektrotekhnica in the charter capital is 100%.

LLC Evropeyskaya Elektrotekhnica was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 46 in Moscow on 14 August 2014 under principal state registration number 1147746927790, state registration certificate series 77 No. 017324559.

## ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian economy shows the features inherent in emerging markets. Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, developments in Ukraine, the current situation with sanctions, uncertainty and volatility of stock and commodity markets and other risks have had and may continue to have effects on the Russian economy.

Grounds for recognising the company as a subsidiary: the share in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West, which is a subsidiary of PJSC Evropeyskaya Elektrotekhnica, is 99%.

LLC ROG-Engineering was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 39 for the Republic of Bashkortostan on 13 August 2013 under principal state registration number 1130280048051, state registration certificate series 02 No. 007131020.

Grounds for recognising the company as a subsidiary: the share in the charter capital of LLC EC Evropeyskaya Elektrotekhnica, which is a subsidiary of PJSC Evropeyskaya Elektrotekhnica, is 95%.

The consolidated financial statements of the Group are based on the principles set out in Section 4.2.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic conditions. The future economic situation and regulatory environment and its impact on the Group's operations may differ from management's current expectations.

## BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

### Confirmation of compliance

The consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards, including all the International Financial Reporting Standards and Interpretations issued by the Council for International Financial Reporting Standards adopted and effective in the reporting period, and should be read in conjunction with the annual combined financial statements of the Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017.

PJSC Evropeyskaya Elektrotekhnica and its subsidiaries keep accounting records and prepare financial statements in accordance with the requirements of the legislation of the Russian Federation. These consolidated financial statements have been prepared on the basis of the accounting reports, subject to adjustments and reclassifications of the items that are necessary to bring them into line with IFRS. The accounting policies used in preparing these consolidated financial statements are presented below.

Management used a going concern basis to prepare these consolidated financial statements. See Note 46 "The effect of estimates and assumptions on recognised assets and liabilities".

### Transition from combined to consolidated reporting

At the end of 2017, the controlling parties of the Group, PJSC Evropeyskaya Elektrotekhnica, are Ilya Kalcnkov and Sergey Dubenok. Based on the results of operations in 2017, the Group issued Combined Financial Statements, including financial indicators and cash flows of companies: PJSC Evropeyskaya Elektrotekhnica; LLC Evropeyskaya Elektrotekhnica - North-West; LLC EC Evropeyskaya Elektrotekhnica; LLC Evropeyskaya Elektrotekhnica, as if these companies were one group under the control of PJSC Evropeyskaya Elektrotekhnica.

As of 31 December 2018, LLC Evropeyskaya Elektrotekhnica - North-West acquired a 100% stake in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West and a 95% stake in the charter capital of LLC ROG-Engineering. Thus, as of 30 September 2018, PJSC Evropeyskaya Elektrotekhnica is the parent organisation of the Group of Companies, which includes:

- ▶ LLC EC Evropeyskaya Elektrotekhnica;
- ▶ LLC Evropeyskaya Elektrotekhnica - North-West;
- ▶ LLC Evropeyskaya Elektrotekhnica;
- ▶ LLC ROG-Engineering.

Starting from 2018, the Group prepares consolidated financial statements in accordance with the requirements of IFRS 10 Consolidated Financial Statements.

The accounting policies and calculation methods used in preparing these consolidated financial statements are consistent with the accounting policies and methods used and described in the Group's annual combined financial statements, except for adjustments made in accordance with IFRS 10 Consolidated Financial Statements to these financial statements and changes arising out of new and revised standards. The key accounting policies applied by the Group since 1 January 2018 are described in Note 4.

In these consolidated financial statements, the Group's capital is presented in accordance with IFRS 10 Consolidated Financial Statements.

Comparative data for the previous period are presented in accordance with the combined financial statements of the Group for 2017 and as of 31 December 2017.

### Basis for assessment

The consolidated financial statements have been based on historical cost, except for certain property and financial instruments recognised as described in the accounting policies below. Historical cost is usually estimated on the basis of the fair value of the consideration received in exchange for assets.

Fair value is determined as a sum that would be received for an asset sold or paid for a liability transferred in an orderly transaction between market participants at the measurement date independent of the immediate observability of this price or its estimation according to other valuation technique. When estimating the fair value of an asset or a liability, the Group takes into consideration characteristics of an asset or a liability as if they were taken into consideration by market participants. For the purposes of measurement and / or disclosures in these financial statements, the fair value is determined as described above, excluding share-based payments covered by IFRS 2, leases governed by IAS 17 and estimates that are comparable but not equal to the fair value (for example, net selling price in measuring inventories under IAS 2).

### Functional currency and presentation currency

The functional currency of PJSC Evropeyskaya Elektrotekhnica and its subsidiaries is the currency of the primary economic environment the Company is operating in - the currency of the Russian Federation (Russian rouble). The consolidated financial statements of the Group are stated in thousands of Russian roubles, unless otherwise stated.

For preparing the financial statements, transactions in currencies other than functional currency (i.e. in foreign currency) are recognised at the spot exchange rate valid at the date of transaction. Monetary items denominated in foreign currency are translated using the spot exchange rate at the reporting date. Non-monetary items denominated in foreign currencies and measured at fair value are to be translated at spot exchange rates valid at the date the fair value was measured. Non-monetary items carried at historical cost in a foreign currency are not translated.

Foreign exchange differences on monetary items caused by changes in exchange rates are recognised in profit or loss in the period when they arise.

**Exchange rates of foreign currencies the Group used to make transactions are given below:**

	31 December 2018	31 December 2017
Closing price - [RUB]		
1 US dollar	69.4706	57.6002
1 Euro	79.4605	68.8668
1 pound	88.2832	77.6739
	Weighted average exchange rate (since 01.01.2018 till 31.12.2018)	
Average exchange rate in 2018 – [RUB]		
1 US dollar	62.9264	
1 Euro	74.133	
1 pound	83.7802	
	Weighted average exchange rate (since 01.01.2017 till 31.12.2017)	
Average exchange rate in 2017 – [RUB]		
1 US dollar	58.3529	
1 Euro	65.9014	
1 pound		

**Going concern**

These consolidated financial statements have been prepared on the going concern basis, according to which the disposal of assets and fulfilment of obligations shall comply with generally accepted procedure. The ability of the Group to sell its assets, as well as its future activities, may largely depend on the current and future economic situation in the Russian Federation. These consolidated financial statements do not contain any adjustments which would be necessary if the Group could not continue as a going concern.

The consolidated financial statements have been prepared on accrual basis according to matching concept under IAS 1.

The consolidated financial statements for 2018 were authorised for issue on 30 April 2019. Subsequent events have been evaluated through 30 April 2019, the date these consolidated financial statements were issued.

**KEY ASPECTS OF THE ACCOUNTING POLICY**

The principal accounting policies are set out below. These policies have been consistently applied to all the periods presented in financial statements.

**Consolidated financial reporting principles**

The Group prepares consolidated financial statements in accordance with the requirements of IFRS 10 Consolidated Financial Statements. In these financial statements, assets, liabilities, capital, income, expenses, and cash flows of PJSC Evropeyskaya Elektrotehnica, the parent company of the Group, and its subsidiaries (components of the Group) are presented as assets, liabilities, capital, income, expenses, and cash flows cash of a single economic entity.

The investments of the parent organisation in each subsidiary and the interests of the parent organisation in the charter capital of its subsidiaries were netted against each other.

Transactions between the companies of the Group, balances on corresponding accounts and unrealised gains on transactions between the Group's companies are mutually eliminated. Unrealised expenses are also mutually eliminated, unless the relevant transaction indicates an impairment of the asset being transferred.

The Group applies the unified accounting policies for the preparation of these consolidated financial statements.

**Consolidation**

Subsidiaries are companies, in which the Group directly or indirectly owns more than half of the voting shares, or has another opportunity to control their financial and operating operations. Subsidiaries are included in the consolidated financial statements of the Group starting from the date the control over their operations is actually transferred to the Group and are excluded from the statements starting from the date such control is terminated.

The interest of minority shareholders is a part of operating margin or net assets of a subsidiary attributable to the equity interest the Group does not own directly or indirectly.

**Business combination**

Business combinations are recorded using the acquisition method.

The date of acquisition is the date when the Company gains working control over an acquiree.

The acquisition cost is measured as the sum of the consideration carried at fair value at the acquisition date and non-controlling interest in the acquiree. For each business combination transaction, the Company decides how to measure the non-controlling interest in the acquiree: either at fair value or at a proportionate share in the identifiable net assets of the acquiree. Acquisition costs incurred are recognised as administrative expenses.

Contingent consideration to be transferred by the acquirer must be recognised at fair value at the date of acquisition. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability if they arose after the period for completing the measurement, are recognised within profit or loss for the period. If the contingent consideration is classified as equity, it should not be re-measured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed by the Company. If the aggregate of the consideration transferred and the amount recognised for non-controlling interests are lower than the fair value of the net identifiable assets acquired and liabilities assumed by the Company, the difference is recognised in profit or loss for the period.

**Associates**

Investments in associates that are not classified as assets for sale and were not a part of disposal groups are recognised at their cost of acquisition.

Carrying value of investments in associates is increased or decreased by reported share of the investor in profit or loss of the investee after the acquisition date.

The Company's share of net profit or loss and other comprehensive income of the associate is recognised in the combined statement of profit or loss and other comprehensive income of the Company. The income received from the investee in the form of dividends reduces carrying value of investments.

Adjustments to carrying value may also be necessary to recognise changes of the investor's share in the income of the investee.

The Company's net investments in associates include the carrying value of the investments in these associates, as well as other long-term investments that are virtually investments in associates, such as loans. If the share in losses exceeds the carrying value of the investments in associates and the value of other long-term investments related to investments in these associates, the Company ceases to recognise its share in losses after the carrying value reaches zero. Any additional losses are provided for and liabilities are recognised only to the extent that the Company has legal or constructive obligations or has made payments on behalf of the associate.

If the associate subsequently makes profits, the Company resumes recognising its share in these profits only after its share of the profits equals the share of losses not recognised.

The carrying value of an investment in the associate is tested for the impairment by comparing its recoverable amount (the largest value of value in use and fair value less costs of sale) with its carrying value in all cases the signs of impairment are identified.

## Recognition of revenues

Revenue is recognised at the fair value of the consideration received or receivable. Revenue is reduced by the amount of expected returns of goods, discounts, and other similar deductions.

### Sale of goods

Revenue from the sale of goods is recognised upon delivery of the goods and transfer of ownership. For revenue to be recognised, the following conditions must be met:

- ▶ the Group transferred to the buyer significant risks and benefits associated with to the possession of these goods;
- ▶ the Group does not retain neither managerial functions to the extent that is usually associated with the possession of goods, nor effective control over the goods sold;
- ▶ the amount of revenue can be reliably measured;
- ▶ there is the high probability of obtaining economic benefits related to the transaction;
- ▶ incurred or expected costs of transaction can be measured reliably.

In particular, revenue from sale of goods is recognised as goods are delivered and ownership is transferred.

### Services, works, fees

Revenue from service contracts is recognised on the basis of the degree of completion. The stage of completion of services provided is defined as follows:

- ▶ installation fees are recognised by reference to the degree of completion of installation operations, which is defined as the proportion of the total time required to complete the installation that has expired at the reporting date;
- ▶ maintenance fees included in the price of the good is recognised by reference to the share of the total maintenance costs of the good sold;
- ▶ revenue under hourly rate contracts and compensation of direct costs is recognised at the contract rates as the work progresses and direct costs are incurred.

Revenue must cover the economic benefits received or receivable. The amounts arriving in the Group's account from, or for transfer to, a third party do not result in economic benefits or do not lead to an increase in equity. Therefore they are excluded from revenues, in particular from receipts under agency or consignment agreements. Agent or consignment commissions is the only revenue under such agreements. A commission is recognised when the Group acquires the right to receive (withhold) it under the agreement and all doubts related to its receipt are eliminated.

### Dividends and interest income

Dividend income is recognised when the shareholder's right to receive the dividend payment is established (if the Group is likely to receive economic benefits and the amount of revenue can be measured reliably).

Interest income on financial assets is recognised if the Group is likely to receive economic benefits and the amount of revenue can be measured reliably. To calculate interest income, the carrying value of a financial asset (net of interest) and the effective interest rate (EIR) are used. The latter is calculated so as to discount expected future cash flows over the expected period until the financial asset is repaid to its net carrying value at the time of recognition.

### Leases

Leases under which all material risks and benefits arising from ownership are transferred to the lessee are classified as finance leases. All other leases are recognised as operating leases.

### The Group as lessor

Lease receivables are recognised in accounts receivable in the amount of the Group's net investment in the lease. Revenue from finance lease is distributed over reporting periods in such a way as to ensure constant rate of return on the Group's net investment in the lease. Revenue from the operating lease is recognised on a straight-line basis over the lease term. Initial direct costs related to negotiating the terms of the operating lease and its execution are included in the carrying value of the leased asset and expensed on a straight-line basis over the lease term.

## The Group as lessee

Assets leased under finance leases are initially recorded at the lower of a) fair value of the leased asset at the beginning of the lease term and b) discounted value of minimum lease payments. Relevant liabilities to the lessor are recognised in the interim consolidated statement of financial position as finance lease liabilities.

The rental amount is distributed between the financial expenses and the reduced leasing commitments in such a way to obtain a constant interest rate on the balance of the commitments. Finance expenses are recorded in profit or loss if they do not directly relate to qualifying assets. In the latter case, they are capitalised in accordance with the general accounting policy of the Group on borrowing costs. The contingent lease payment is expensed as incurred.

Operating lease payments are expensed on a straight-line basis over the lease term, unless a different method of allocating expenses corresponds more precisely to the temporary distribution of economic benefits from leased assets. The contingent lease payments under operating leases are expensed as incurred.

Incentive payments received from operating leases are recognised as a liability. The total amount of such incentives reduces lease expenses on a straight-line basis, unless a different method of allocating expenses corresponds more precisely to the temporary distribution of economic benefits from leased assets.

## Borrowing costs

Borrowing costs directly related to the acquisition, construction or creation of assets that take a considerable time to prepare for their planned use or sale (qualifying assets) are included in the cost of such assets until they are ready for the planned use or sale.

The income resulted from temporary investment of borrowed funds before they are spent for the acquisition of qualifying assets is deducted from borrowing costs.

All other borrowing costs are recorded within profit or loss as incurred.

## Employee benefits and compensation costs

Employee benefits with respect to services rendered during the reporting period, including the accrual of annual leave and bonuses, as well as related payroll taxes, are recognised as expenses in the period when they arise.

Companies within the Group are legally obliged to make defined contributions to the Russian Federation State Pension Fund as consistent with the system of defined contributions to the Pension Fund. The Group's contributions to the State Pension Fund are recorded in the reporting period as expenses related to the services rendered by an employee. The contribution to the Russian Federation State Pension Fund for each employee ranges from 10% to 30%, depending on the total annual remuneration for each employee.

## Profit tax

Profit tax expenses include current and deferred tax.

### Current tax

The amount of current tax is determined by taxable profits for the year. Taxable profit differs from the profit before tax reported in the statement of profit or loss and other comprehensive income in that it includes part of income and expense in taxable profits of other years and excludes income (expense) that are not subject to any taxation (deduction). The amount of the current income tax is calculated at the rates approved by law at the reporting date.

### Deferred tax

Deferred tax is recognised on temporary differences between the carrying value of assets and liabilities reflected in the statements and the relevant tax accounting data used in calculating taxable profit. Deferred tax liabilities (DTL) are generally recognised for all taxable temporary differences.

Deferred tax assets (DTA) are recognised for all deductible temporary differences, provided there is a high probability of future taxable profit being sufficient to use these temporary differences. DTA/DTL are not recognised in the statements if temporary differences arise due to the initial recognition of other assets and liabilities in transactions (other than business combinations) that affect neither taxable nor accounting profit. In addition, DTL are not recognised in the statements if temporary differences arise from the recognition of goodwill.

DTL are recognised for taxable temporary differences attributable to subsidiaries and entities under common control, as well as joint ventures, unless the Group is unable to control the timing of temporary difference reversal, or it is highly probable that the temporary differences will be reversed in the foreseeable future. DTA for subsidiaries and entities under common control and joint ventures are recognised when there is a high probability of obtaining future taxable profits sufficient for the use of deductible temporary differences and are expected to be used in the foreseeable future..

DTA/DTL are calculated at tax rates (as well as provisions of tax legislation) approved or almost approved by legislation at the reporting date, which are expected to be valid during the period of DTA/DTL implementation. The DTA/DTL measurement reflects the tax consequences of the Group's intention to recover or settle the carrying value of assets and liabilities at the reporting date.

For the calculation of DTA/DTL on investment property measured at fair value, it is presumed by default that the carrying value of the investment property will be recovered through sale. This presumption can be refuted for depreciable investment property held within the framework of a business model that provides for the reimbursement of carrying value by using investment property in ordinary activities, rather than through sale. The Management believes that such a business model is not applicable to the objects of the Group's investment property, and therefore, the presumption established by the amendments to IAS 12 cannot be refuted. Therefore, the Group did not recognise DTA/DTL for changes in the fair value of investment property, as these changes are not subject to profit tax.

#### The following useful lives are used in calculating depreciation.

Office and warehousing property	25-50 years
Vehicles	3-5 years
Machinery and equipment	5-7 years
Inventory and other	3-5 years

Assets received under finance leases are depreciated over the expected useful life in the same way as the assets owned by the Group. However, in the absence of reasonable certainty that the ownership will be transferred to the lessee at the end of the lease term, the asset must be fully depreciated over the shorter of the lease term and the useful life.

A fixed asset is written off when it is sold or when no future economic benefits are expected from its further use. The financial performance of the sale or other disposal of fixed assets is determined as the difference between the selling price and the carrying value of fixed assets and is recognised in the combined statement of profit or loss.

#### Current and deferred tax for the year

Current and deferred taxes are recognised in profit or loss, unless they relate to transactions recorded in other comprehensive income or equity. In this case, current and deferred taxes are also recognised in other comprehensive income or in equity. Current and deferred taxes arising from business combinations are accounted for when these transactions are reported.

#### Fixed assets

Fixed assets, except for office and warehouse warehousing property, are carried at acquisition cost less of accumulated depreciation and accumulated impairment losses.

Office and warehousing property is carried at revalued cost, which is its fair value at the date of revaluation less of subsequent accumulated depreciation and subsequent accumulated impairment losses. The frequency of revaluations shall be sufficient to prevent a significant difference between the carrying value and that which would have been determined using fair value at the end of the reporting period.

Depreciation is charged to write off the actual cost of fixed assets (excluding land and construction in progress), less the salvage value, evenly over the expected useful life. The expected useful life, carrying value, and depreciation method are analysed at each reporting date. Moreover, all changes in estimates are reported prospectively.

#### Impairment of assets

The Group checks for indicators of impairment of the carrying value of assets at each reporting date. If any such indication exists, the recoverable amount of the asset is calculated to determine the impairment loss. If it is not possible to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) the asset belongs to. The value of the Group's assets is distributed to individual CGUs or the smallest CGU groups, for which a reasonable and consistent method of distribution can be found.

The recoverable amount is determined as the higher of the asset's fair value less costs to sell and value in use. In determining value in use, the expected future cash flows are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimated future cash flows have not been adjusted.

If the recoverable amount of the asset (CGU) is below the carrying value, the carrying value of the asset (CGU) is reduced to the recoverable amount. Impairment losses are immediately carried through profit and loss, unless the asset is regularly revalued. In this case, the impairment loss is treated as a revaluation decrease.

#### Inventories

Inventories are carried at the lower of the actual cost of acquisition and net realisable value. The cost of acquisition of inventories is determined using the weighted average method. The net realisable value is the estimated selling price of inventories less all expected costs of improvement and selling expenses.

The Management estimates the amount of provision for impairment of inventories based on its storage life. For inventories that are stored for more than 5 years, 100% of provision is accrued; more than 4 years - 75% of provision is accrued; more than 3 years - 50%; more than 2.5 years - 25%. The provision is not accrued for inventories with a storage period of less than 2.5 years.

#### Formation of estimated liabilities

Estimated liabilities are recognised when the Group has obligations (legal or constructive) as a result of past events, and it is probable that the Group will have to settle these obligations and their amount can be measured reliably.

Estimated liability is recognised in the Group's best estimate of the amount necessary for its settlement at the reporting date, taking into account the risks and uncertainties specific to these liabilities.

If the liability is calculated from the expected cash flows for its settlement, the cash flows are discounted (if the effect of discounting is material).

If it is expected that repayment of liabilities will be partially or fully reimbursed by a third party, the corresponding receivables are recorded as an asset only with full confidence that the reimbursement will be received, and it is possible to measure it reliably.

#### Financial instruments

Financial assets (FA) and financial liabilities (FL) are recognised when an entity of the Group becomes a party to a contractual relationship for the relevant financial instrument.

#### Recognition and classification of financial assets

From 1 January 2018, upon initial recognition, the Group classifies financial assets into three measurement categories: subsequently measured at amortised cost, subsequently measured at fair value, changes of which are carried through other comprehensive income, and subsequently measured at fair value, changes of which are carried through profit or loss.

A financial asset is measured at amortised cost if it simultaneously meets the following two conditions and is not classified as measured at fair value through profit or loss:

- ▶ an asset is held within a business model, the purpose of which is to hold assets to receive cash flows under contracts;
- ▶ the contractual terms of the financial asset are adjusted on the dates indicated to cash flows, which are solely payments of principal and interest.

There have been no changes in the classification of financial assets previously also carried at amortised cost.

A financial asset is measured at fair value through other comprehensive income only if it meets the following two conditions and is not classified as measured at fair value through profit or loss:

- ▶ an asset is held within a business model, the purpose of which is to hold assets to receive cash flows under contracts and to sell the financial asset;
- ▶ the contractual terms of the financial asset are adjusted on the dates indicated to cash flows, which are solely payments of principal and interest.

Gains and losses relating to this category of financial assets are recognised in other comprehensive income, except for gains or losses on impairment, interest income, and foreign exchange differences, which are carried through profit or loss. When a financial asset is disposed of, accumulated gains or losses previously carried at other comprehensive income are reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and is included in finance income.

The Group does conduct no transactions involving this category of financial assets.

Financial assets subsequently measured at fair value, changes in which are recorded through profit or loss. Financial assets that do not qualify for the recognition as financial assets carried at amortised cost or carried at fair value through other comprehensive income are measured at fair value through profit or loss. These financial assets of the Group mainly include financial instruments for trading, as well as certain equity instruments, for which the Group has not decided to reflect changes in their fair value in other comprehensive income at fair value, changes of which are reflected through other comprehensive income.

The Group does conduct no transactions involving this category of financial assets.

Reclassifications of financial assets. Financial assets are not reclassified after their initial recognition, except for the period after the change in the business model for managing financial assets.

#### Impairment of financial assets

The Group applies the "expected credit loss" model to financial assets measured at amortised cost or at fair value through other comprehensive income, excluding investments in equity instruments, as well as to contractual assets. The estimated allowance for expected credit losses on a financial asset is estimated at an amount equal to the expected credit losses for the entire credit term if the credit risk on the financial asset has increased significantly since its initial recognition.

If, as of the reporting date, there is no significant increase in the credit risk of a financial asset since initial recognition, the estimated loss allowance for a financial asset is estimated at an amount equal to expected credit losses for 12 months.

For trade receivables and contractual assets, regardless of the availability of significant financing components, an estimate of expected credit losses for the entire term is used.

The application of the new model did not lead to an increase in the amount of the allowance for expected credit losses.

#### Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- ▶ financial liabilities measured at fair value through profit or loss. Such liabilities, including derivative financial instruments, are subsequently measured at fair value;
- ▶ financial guarantee contracts. After initial recognition, financial guarantee contracts are measured at the higher of the estimated allowance for losses and the initially recognised amount less the total amount of income recognised in accordance with the principles of IFRS 15 Revenue from contracts with customers;
- ▶ contingent consideration recognised in a business combination IFRS 3 Business Combinations is applied to. Such contingent consideration is subsequently measured at fair value, changes in which are recognised in profit or loss.

The Group, at its discretion, does not classify any financial liabilities as measured at fair value through profit or loss.

Previously, the Group applied a similar classification and measurement of financial liabilities.

Therefore, the adoption of IFRS 9 Financial Instruments did not affect the Group's consolidated financial statements.

The Group applied IFRS 9 Financial Instruments retrospectively and took advantage of the exemption to avoid recounting the previous presented periods due to the application of the new rules.

#### The effective interest method

The effective interest method is used to calculate the amortised cost of debt and the distribution of interest income for the relevant period. The effective interest rate is the rate that discounts the expected future cash inflows (including all payments received or made on a debt instrument that are integral to the effective interest rate, transaction costs, and other premiums or discounts) over an expected period until the debt instrument is settled or (if applicable) for a shorter period to the carrying value at the time the debt instrument is entered into the books.

#### Interest income and expense calculated using the effective interest method

Interest income and expense are recognised on debt instruments at amortised cost or at fair value through profit or loss on an accrual basis using the effective interest method. This method takes into account all payments received or paid between the parties to the transaction as part of interest income or expense and as an integral part of the effective interest rate, transaction costs, premiums or discounts.

Payments that are an integral part of the effective interest rate include commission fees received or paid by the entity related to the creation or acquisition of a financial asset or the issue of a financial liability.

Interest income is calculated by applying the effective interest rate to the gross carrying value of financial assets, with the exception of:

- ▶ financial assets that have become impaired, for which interest income is calculated by applying the effective interest rate to their amortised cost (net of allowance for expected credit losses (ECL)).

#### Derecognition of FAs

The Group writes off FAs when the contractual rights to cash flows on them are terminated or when the FAs and related risks and benefits are transferred to another entity. If the Group does not transfer and retains all the main risks and benefits of owning the asset and continues to control the transferred asset, it continues to reflect its share in the asset and its possible liabilities. If the Group retains all main risks and benefits of owning the FA transferred, it continues to recognise this FA and reports amounts acquired through transfer as a secured borrowing. When the FA is fully written off, the difference between its carrying value and the consideration received or receivable, as well as changes accumulated in other comprehensive income, are recognised in profit or loss.

If FA is derecognised partially (for example, when the Group retains the opportunity to repurchase part of the transferred asset), the Group distributes the carrying value of FA between the remaining and the written-off parts, based on the balance between the fair value of these parts at the date of transfer. The difference between the carrying value allocated to the part to be written off and the consideration received for the part to be written off, as well as the changes in the part to be written off accumulated in other comprehensive income, are included in profit or loss. Changes recognised in other comprehensive income are distributed on the basis of the fair value of the written-off and remaining parts.

#### Equity instruments

An equity instrument is any contract that confirms the right to a share of the entity's assets after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Equity financial instruments issued by the Group's entities are classified as FL or equity based on the essence of the contract, as well as the definitions of FL and equity instrument.

The repurchase of the Company's own equity instruments is recognised as a decrease in equity. The benefits or losses from purchase, sale, issue or cancellation of the Group's own equity instruments are not recognised in profit or loss.

## APPLICATION OF NEW OR REVISED FINANCIAL REPORTING STANDARDS

New and revised standards and interpretations that have been issued but have not yet entered into force are listed below. The Group does not apply early standards, interpretations and amendments that have not entered into force at the date of preparation of these consolidated financial statements. Management has not carried out quantitative and qualitative assessments of the impact of the application of standards that have not entered into force, however, it is understood that the application of new standards may have an impact on the subsequent consolidated financial statements of the Group.

- ▶ IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). IFRS 16 contains a single accounting model for a lessee that removes the separation between operating and financial leases from the perspective of the lessee. All contracts that meet the definition of a lease, except for short-term leases and leases of low value items, for which the lessee has the right not to apply the requirements of IFRS 16 for assessment and classification, will be recorded in the statement of financial position as an "right to use" asset and the corresponding liability. The asset is subsequently recorded as a fixed asset or investment property, and the liability is written off using the interest rate imputed in the lease. Lessor accounting requirements have not changed compared to the previous requirements of IAS 17.

- ▶ Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2020). The amendments clarify that profit or loss is recognised in full if the assets transferred to the associate or joint venture are a business as defined in IFRS 3 Business Combinations. Gains or losses on the sale or contribution of assets that do not constitute a business are recognised only to the extent that the investor does not own a share in the associate or joint venture.
- ▶ IFRIC Interpretation 23 Uncertainty regarding the rules for calculating profit taxes (effective for annual periods beginning on or after 1 January 2019). Uncertainty regarding the interpretation of tax laws may affect an entity's accounting for current or deferred tax assets or liabilities. The clarification explains how it is necessary to apply the requirements of IAS 12 Profit Taxes to recognition and measurement when there is uncertainty of tax interpretations in respect of income tax. In this case, the entity shall recognise and measure its current and deferred tax assets or liabilities based on taxable profits (tax loss), tax base, unused tax losses, unused tax benefits, and tax rates determined in accordance with this Interpretation.

## SIGNIFICANT ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

When applying the Group's accounting policies (see Note 4), the management should make projections, estimates, and assumptions to determine the carrying values of assets and liabilities that are not apparent from other sources. Estimated values and underlying assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimations and related assumptions are regularly revised. Changes in estimations are recognised in the current period if they have impact on this period only or in the current and future periods if they have impact on both current and future periods.

The following explanatory notes describe the key areas, which require estimation of uncertainty and the most important judgements that have the most significant impact on the amounts reported in the financial statements:

- ▶ Provision for impairment of receivables - Note 16;
- ▶ measurement of deferred tax assets and liabilities- Note 12;
- ▶ Fair value measurement - Note 24;
- ▶ Assessment of the Company's ability to renew operating leases and to enter into new lease agreements.

## CAPITAL AND FINANCIAL RISK MANAGEMENT

### Capital management

The Group's capital management is aimed at the continuation of its business as a going concern and maximisation of profits for participants by optimising the debt to equity ratio.

The Group's capital management objectives are to enable the companies of the Group to continue as a going concern in order to provide income to participants and benefits to other interested parties. As at 31 December 2018, the equity capital totalled RUB 694,631,000 (31 December 2017: RUB 541,528,000).

The Group's capital structure includes net debt and equity of the Group consisting of charter capital, additional capital, provisions, and retained earnings (see Note 18). The Group's net debt as at 31 December 2018 amounted to minus RUB 153,095,000 (as of 31 December 2017: minus RUB 120,326,000). No debt burden and availability of liquidity mean minimal default risks.

The net debt as at 31 December 2018 and 31 December 2017 is estimated in the table below.

	31 December 2018	31 December 2017
Total debt	93,663	89,456
Net of cash and cash equivalents	246,758	209,782
Net debt	(153,095)	(120,326)

Adjusted EBITDA is calculated as operating profit less depreciation and less provisions for impairment of assets and estimated liabilities (excluding provisions for impairment of receivables), taking into account the revaluation of fixed assets. Adjusted EBITDA of the Group as at 31 December 2018 was RUB 382,279,000 (as at 31 December 2017, RUB 371,139,000).

Metric	2018	2017
EBITDA	382,279	361,291
Operating profit	370,465	306,857
Amortisation charges	11,814	15,048
Revaluation of fixed assets	–	39,386

### Financial risk management

In the course of its operations, the Group is exposed to the following financial risks: market risk (including currency risk, commodity price risk), credit risk, and liquidity risk. The Group has introduced a risk management system, and developed a number of procedures to measure, assess, and monitor, as well as to select the appropriate risk management methods.

The Group's management developed, documented, and approved the relevant provisions and policies for market and credit risks, liquidity risk, and risk of using derivatives.

### Foreign currency risk

The Group performs transactions denominated in foreign currencies, mainly in US dollars and euros, and is exposed to currency risk as the result of fluctuations of exchange rates. Currency risk is associated with assets, liabilities, operations, and financing expressed in foreign currency.

The carrying value of monetary assets and liabilities denominated in a foreign currency other than the functional currency of the Company is as follows:

	Assets as of		Liabilities as of	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
EUR	52,008	10,840	(2,010)	(112)
USD	30,700	18,894	(1,633)	–
Pound	308	–	–	–
<b>Total</b>	<b>83,016</b>	<b>29,734</b>	<b>(3,643)</b>	<b>(112)</b>

The Company identifies and manages currency risks using an integrated approach that enables the implementation of natural (economic) hedge. The Company chooses the currency to hold the cash in, such as the Russian rouble, US dollar or other currencies for short-term risk management purposes.

### Analysis of sensitivity of financial instruments to foreign exchange risk

The level of currency risk is assessed on a monthly basis using sensitivity analysis and is maintained within the limits adopted in line with the Company's policy. The table below shows the change in the Company's profit before tax with the growth/(decrease) of the US dollar and the Euro against the Russian rouble.

	2018	2017
The effect of a 10% change in the Euro exchange rate	4,000/(4,000)	858/(858)
The effect of a 10% change in the US dollar exchange rate	2,325/(2,325)	1,512/(1,512)
The effect of a 10% change in the Pound exchange rate	25/(25)	–

### Credit risk

The Group controls its own exposure to credit risk. The creditworthiness of external counterparties is assessed in relation to all buyers and their financial guarantors, as well as sellers of goods and services who act on a prepayment basis. The Group continuously monitors the financial position of counterparties and controls the risk of default. If counterparties fail to fulfil their obligations, the Group's exposure to the credit risk is limited by the amounts of concluded contracts. As at 31 December 2018, the management assessed the such risk as remote.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. The Group does business with PJSC Sovcombank, VTB Bank (PJSC), PJSC Sberbank. The Company's exposure to credit risk is limited to the carrying value of financial assets recognised on the consolidated statement of financial position.

	31 December 2018	31 December 2017
Cash and cash equivalents	246,758	209,782
Long-term and short-term trade and other receivables	660,399	734,818
Financial guarantees	55,040	24,620
Total maximum exposure to credit risk	962,197	969,220

## Liquidity risk

The Group has mature liquidity risk management processes covering short-term, med-term and long-term funding. Management regularly monitors projected and actual cash flow information, analyses the repayment schedules of the existing financial assets and liabilities, and performs annual detailed budgeting procedures. Information on the maturities of the Group's financial liabilities in accordance with the contractual schedules as at 31 December 2018 and 31 December 2017:

31 December 2018	12 months	1–5 years	> 5 years	Total
Finance lease liabilities	11,947	47,789	142,522	202,259
Accounts payable to suppliers and contractors	275,459	–	–	275,459
Short-term and long-term loans and borrowings	2,016	–	41,007	43,023
Salary and other benefits payable	5,999	–	–	5,999
Taxes payable	46,782	–	–	46,782
<b>Total</b>	<b>342,203</b>	<b>47,789</b>	<b>183,529</b>	<b>573,522</b>

31 December 2017	12 months	1–5 years	> 5 years	Total
Finance lease liabilities	11,947	47,789	154,470	214,206
Accounts payable to suppliers and contractors	328,821	–	–	328,821
Short-term and long-term loans and borrowings	373	–	38,165	38,538
Salary and other benefits payable	65	–	–	65
Taxes payable	44,003	–	–	44,003
<b>Total</b>	<b>385,209</b>	<b>47,789</b>	<b>192,635</b>	<b>625,633</b>

## REVENUE FROM SALES AND COST OF SALES

Basically, all activities and assets of the Group are located in the Russian Federation.

The Group supplies materials for electric supply, electric lighting, and low current systems at facilities of any purpose. All components, namely products and customers, have similar economic characteristics, therefore the activities are not segmented.

	For the year ended	
	31 December 2018	31 December 2017
Revenue from sales	3,286,684	2,595,265
Cost of sales	(2,490,347)	(2,127,358)
Gross profit	796,337	467,907

At the end of 2018, revenue from the sale of goods and services to two largest customers amounted to 20% of the Group's revenue, which is equivalent to RUB 664,175,000. (2017, revenue from the sale of goods and services to two largest customers amounted to 23% of the Group's revenue, which is equivalent to RUB 594,289,000).

During 2018, current receivables owned by two largest customers to the Group decreased from RUB 38,762,000 to RUB 34,930,000, which amounted to 5% of total trade receivables of the Group as at 31 December 2017 and 5% - as at 31 December 2018.

## Administrative and selling expenses

	For the year ended	
	31 December 2018	31 December 2017
Wages, salaries, and social contributions	164,898	77,718
Transportation services	52,956	29,063
Information services	41,451	18,136
Materials and stationery	36,202	18,404
Consulting and legal services	29,102	13,672
Business trips	20,112	15,891
Operating leases	16,449	8,524
Electrical installation work	16,101	38,014
Amortisation charges	9,527	15,047
Repairs and maintenance	3,761	1,749
Communication costs	3,736	(3,170)
Banking services	2,277	3,200
Insurance	1,615	6,001
Marketing services	483	742
Security	296	275
Taxes	272	320
Storage	100	0
Other expenses	22,791	18,479
<b>Total administrative and selling expenses</b>	<b>422,129</b>	<b>268,405</b>

## Other income and expenses

	For the year ended	
	31 December 2018	31 December 2017
Revenue from promissory notes presented	–	93,939
Revenue from sale of shares	(332)	30,283
Write-off, sale of fixed assets	381	686
Write-off of accounts payable, including salaries and other employee benefits payable	–	510
Creation of provision for trade receivables	6,811	(16,369)
Creation of provision for short-term investments	(97)	(195)
Paying bonuses to customers	(9,105)	–
Other expenses	(5,111)	(1,499)
<b>Total other operating income/expenses</b>	<b>(7,453)</b>	<b>107,355</b>



**Finance income and expenses**

	For the year ended	
	31 December 2018	31 December 2017
Interest on bank balance and deposits	3,992	18,412
Interest on loans issued	754	1,877
Foreign exchange gain	7,028	13,310
Total finance income	11 774	33,599
Discount amortisation upon presentation of promissory notes	–	(137,523)
Interest expense on long-term promissory notes	–	(10,667)
Interest expense	(8,262)	(373)
Expenses for finance lease	(11,669)	(11,725)
Foreign exchange loss	(3,299)	(10,175)
<b>Total finance expenses</b>	<b>(23,230)</b>	<b>(170,463)</b>
<b>Total finance income and expenses</b>	<b>(11,456)</b>	<b>(136,864)</b>

**Profit tax****Profit tax shown on profit or loss**

	For the year ended	
	31 December 2018	31 December 2017
Current profit tax	(67,147)	(54,995)
Deferred tax assets	1,847	915
Deferred tax liabilities	(611)	18,820
Tax effect	(65,911)	(35,260)

In 2017-2018, current profit tax rate of 20% was used for the companies of the Group.

**Profit tax expense for the year can made consistent with the profit reported in accounting records in the following way:**

	For the year ended	
	31 December 2018	31 December 2017
Profit before tax on profit from continuing operations	355,299	169,993
Profit lax at 20% tax rate	(71,060)	(33,999)
Permanent differences: income and expense, which do not affect taxable profit	5,149	(1,261)
Unused tax losses unrecognised in the statements	–	–
Profit tax shown on profit or loss	(65,911)	(35,260)

**Deferred taxes**

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

Items	Consolidated statement of financial position as at		profit or loss	Shown on	
	31 December 2018	31 December 2017		income	equity
Fixed assets	(20,061)	(20,061)	–	–	–
Provision for impairment of receivables	307	–	307	–	–
Finance lease liabilities	10,058	10,128	(70)	–	–
Accounts payable	(8,201)	(8,613)	412	–	–
Long-term loans and borrowings	(31,799)	(32,367)	–	–	(568)
Provision for vacations	1,982	933	1,123	–	(74)
Other taxable differences recognised in DTL	(1,871)	–	(953)	–	(918)
Other taxable differences recognised in DTA	4,803	4,803	–	–	–
Other deductible differences	694	–	417	–	277
Deferred taxes (net), including	(44,088)	(45,177)	1,236	–	(1,283)
Deferred tax assets	2,983	933	1,847	–	203
Deferred tax liabilities	(47,071)	(46,110)	(611)	–	(1,486)
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>profit or loss</b>	<b>other comprehensive income</b>	<b>equity</b>
Fixed assets	(20,061)	(31,644)	1,736	9,847	–
Accounts receivable	4,803	12,935	(8,132)	–	–
Finance lease liabilities	10,128	10,184	(56)	–	–
Long-term promissory notes	–	(29,638)	29,638	–	–
Accounts payable	(8,613)	(4,247)	(4,366)	–	–
Long-term loans and borrowings	(32,367)	–	–	–	(32,367)
Losses carried forward	933	18	915	–	–
Deferred taxes (net), including	(45,177)	(42,392)	19,735	9,847	(32,367)
Deferred tax assets	933	18	915	–	–
Deferred tax liabilities	(46,110)	(42,410)	18,820	9,847	(32,367)

**Fixed assets**

RUB '000	Office and warehousing property		Vehicles	Machinery and equipment	Inventory and other	Total
As of						
31 December 2017 Initial or revalued cost	116,648	25,942		7,199	813	150,602
Accumulated depreciation	(16,344)	(19,696)		(5,545)	(559)	(42,144)
Net book value as at 31 December 2017	100,304	6,246		1,654	254	108,458
Acquisitions		8,217		902	629	9,748
Fixed assets received on acquisition of subsidiaries	–	661		2,423	387	3,471
Amortisation charges	(5,632)	(4,435)		(1,425)	(322)	(11,814)
Disposals at initial or revalued cost	–	(1,158)		–	–	(1,158)
Disposals of accumulated depreciation of fixed assets	–	1,158		–	–	1,158
Revaluation of fixed assets recognised in comprehensive income	–	–		–	–	–
As of						
31 December 2018 Initial or revalued cost	116,648	33,662		10,525	1,828	162,663
Accumulated depreciation	(21,977)	(22,973)		(6,969)	(880)	(52,800)
Net book value as of 31 December 2018	94,671	10,688		3,555	948	109,863
As of 1 January 2017 Initial or revalued cost	165,883	24,976		7,199	649	198,707
Accumulated depreciation	(7,662)	(16,624)		(4,294)	(389)	(28,969)
Net book value as of 1 January 2017	158,221	8,352		2,905	260	169,738
Acquisitions	–	3,694		–	164	3,858
Amortisation charges	(8,682)	(4,944)		(1,251)	(170)	(15,047)
Disposals at initial or revalued cost	–	(2,728)		–	–	(2,728)
Disposals of accumulated depreciation of fixed assets	–	1,872		–	–	1,872
Revaluation of fixed assets recognised in comprehensive income	(49,235)	–		–	–	(49,235)
As of 31 December 2017 Initial or revalued cost	116,648	25,942		7,199	813	150,602
Accumulated depreciation	(16,344)	(19,696)		(5,545)	(559)	(42,144)
Net book value as at 31 December 2017	100,304	6,246		1,654	254	108,458

No fixed assets were pledged as at 31 December 2018. According to the Group's management assessment, carrying value of fixed assets does not differ significantly from their fair value.

Office and warehousing property is carried at market value as at the date of revaluation less accumulated depreciation.

The Group regularly revaluates office and warehousing property at market value as of the end of year. The last revaluation was made as of 31 December 2018. If office and warehousing property was carried at acquisition cost less depreciation, its present value as at 31 December 2018 and 31 December 2017 would have amounted to RUB 35,507,000 and RUB 37,061,000, respectively.

Revaluation reserve as at 31 December 2018 and 31 December 2017 amounted to RUB 69,833,000).

**Short-term and long-term financial assets**

Long-term loans issued	Interest rate	31 December 2018	31 December 2017
to individuals	8–9%	3,967	1,256
to legal entities	6%	757	–
Total long-term loans		4,724	1,256
Short-term loans issued			
to legal entities-related parties	8–9%	–	2,794
to legal entities	10–20%	2,266	–
to individuals	10–14%	–	3,553
to individuals-related parties	8–9%	289	6,207
<b>Total short-term loans</b>		<b>2,555</b>	<b>12 554</b>
<b>Total loans issued</b>		<b>7,279</b>	<b>13,810</b>

As at 31 December 2018 and 31 December 2017, loans were issued in roubles to employees and related parties, including entities under common control of the Group. Under the terms of the contract, maturities of long-term loans are 1.5 to 3 years.

There were no overdue issued loans having no relevant provision for impairment, as at 31 December 2018 and 31 December 2017. The amount of the outstanding loan debt reserved for 2018 is RUB 2,029,000 (2017: RUB 1,933,000).

**Inventories**

	As at 31 December 2018	As at 31 December 2017
Goods for sale	183,352	99,403
Basic supplies and raw materials	25,025	11
Finished goods	61,969	976
<b>Total inventories</b>	<b>270,346</b>	<b>100,390</b>

No inventories were pledged as at 31 December 2018 and 31 December 2017.

### Accounts receivable and prepayments

	31 December 2018	31 December 2017
Trade receivables	551,518	550,357
Other accounts receivable	19,016	87,844
Provision for doubtful trade receivables	(8,763)	(8,270)
Provision for other doubtful receivables	(1,098)	(7,395)
<b>Total trade receivables</b>	<b>560,673</b>	<b>622,536</b>
Advances paid and prepayments	91,631	103,693
Provision for doubtful advances issued	(4,549)	(6,416)
Total advances paid and prepayments	87,081	97,277
Taxes and fees receivable	5,366	1,195
Total receivables and prepayments	653,120	721,008

As at 31 December 2018 and 31 December 2017, no accounts receivable were pledged as collateral for loans and borrowings provided to the Company.

### Accounts receivable by periods of delay as at 31 December 2018 are presented in the table below:

	3-6 months	6-12 months	Over 12 months	Total
Overdue debt	1,075	729	13,219	29,513
Provision for doubtful debt	(538)	(546)	(13,219)	(14,303)
Overdue debt net of provision for doubtful debt	537	183	–	15,210

### Accounts receivable by periods of delay as at 31 December 2017 are presented in the table below:

	Under 3 months	3-6 months	6-12 months	Over 12 months	Total
Overdue debt	1,702	12,024	2,949	13,432	30,107
Provision for doubtful debt	(425)	(6,012)	(2,212)	(13,432)	(22,081)
Overdue debt net of provision for doubtful debt	1,277	6,012	737	–	8,026

### Change in provision for impairment of receivables and prepayments are as follows:

	For the year ended	
	31 December 2018	31 December 2017
Provision for impairment of receivables and prepayments as at 1 January	22,081	62,931
Writing off against impairment provision during the year	(955)	(57,219)
Creation of impairment provision for receivables during the year	(6,715)	16,369
Provision for impairment of receivables and prepayments as at 31 December	14,411	22,081

## CASH AND CASH EQUIVALENTS

### Cash and cash equivalents include:

	31 December 2018	31 December 2017
Cash in current accounts in Russian roubles	233,712	78,904
Cash in foreign currency accounts in all currencies	13,046	28,878
including in US dollars	8,732	18,558
including in Euros	4,314	10,320
Cash equivalents	–	102,000
Total cash and cash equivalents	246,758	209,782

Cash is placed in leading Russian banks, which are among the 500 largest world banks: PJSC Sberbank, VTB Bank (PJSC), PJSC Sovcombank.

## CAPITAL

### Share Capital

	31 December 2018	31 December 2017
<b>Authorised ordinary shares</b>		
Number, millions of shares	610	610
Total amount, RUB '000	610,000	610,000
<b>Issued and fully paid shares</b>		
Number, millions of shares	610	610
Total amount, RUB '000	610,000	610,000
Nominal value of one ordinary share, RUB	1	1

As at 31 December 2018 and 31 December 2017 authorised, issued and fully paid share capital consisted of 610 million shares with a nominal value of 1 Russian rouble each. All shares are equal, and each share provides voting rights.

### Business combination reserve

On 15 September 2016, interests in the charter capital of LLC EC Evropeyskaya Elektrotehnica with nominal value of RUB 3,142,000 were transferred to PJSC Evropeyskaya Elektrotehnica as payment for additional issue of shares of PJSC Evropeyskaya Elektrotehnica. The market value of shares in the charter capital of LLC EC Evropeyskaya Elektrotehnica was estimated by an independent expert at RUB 600 mln. According to the results of the transaction, PJSC Evropeyskaya Elektrotehnica became the sole shareholder of LLC EC Evropeyskaya Elektrotehnica.

Excess of market valuation of interests in the charter capital of LLC EC Evropeyskaya Elektrotehnica over their nominal value is accounted for in equity of the group as Business Combination Reserve.

On 17 April 2017, participants of LLC Evropeyskaya Elektrotehnica made additional contribution to the charter capital of LLC Evropeyskaya Elektrotehnica in the amount of 100 millions of ordinary shares of PJSC Evropeyskaya Elektrotehnica with the estimated value of RUB 738 mln.

As a result of acquisition of LLC Evropeyskaya Elektrotehnica by LLC Evropeyskaya Elektrotehnica - North-West, business combination reserve of RUB 738,298,000 is accounted for in the equity.

As of 31 December 2018, as a result of the acquisition of PJSC Evropeyskaya Elektrotehnica of subsidiaries, the business combination reserve was attributed to retained earnings.

## Acquisition of subsidiaries

On 20 April 2018, a 100% stake in the charter capital of LLC Evropeyskaya Elektrotekhnika - North-West with a nominal value of RUB 100,000 was sold to PJSC Evropeyskaya Elektrotekhnika at a market value of RUB 194 mln. The excess of the market valuation of the shares in the charter capital of LLC Evropeyskaya Elektrotekhnika - North-West over their nominal value is accounted for in the Group's equity as retained earnings.

On 28 June 2018, the transaction was completed to acquire a 95% stake in the charter capital of LLC ROG-Engineering at a nominal value of RUB 9,500. The difference between investment and the value of net assets owned by the Group is reflected as an increase in retained earnings.

Thus, in 2018, as a result of the acquisition of LLC Evropeyskaya Elektrotekhnika - North-West and LLC ROG-Engineering, the carryover of net assets of subsidiaries was reflected:

- ▶ as non-controlling interest in the amount of RUB 4,985,000;
- ▶ as an increase in retained earnings on the acquisition of subsidiaries in the amount of RUB 15,416,000.

## Dividends and similar payments to participants

The Group has been paying dividends since 2010. In accordance with the Russian legislation, dividends are distributed on the basis of net profit for the year calculated under Russian accounting rules.

On 24 May 2017, the General Meeting of Participants of LLC Evropeyskaya Elektrotekhnika approved payment to the participants based on 2016 performance results in the amount of RUB 6,896,000. Dividends were paid out by LLC Evropeyskaya Elektrotekhnika in Q2 2017.

On 30 August 2017, the General Meeting of Participants of LLC Evropeyskaya Elektrotekhnika - North-West approved payment to the participants based on 2012-2016 performance results in the amount of RUB 1,149,000. Dividends were paid out by LLC Evropeyskaya Elektrotekhnika - North-West in Q3 2017.

Based on the Group's performance results, the General Meeting of Participants approved the payment of dividends based on the Group's performance in 2017 in the amount of RUB 91,897,000, including RUB 8,937,000 for shares owned by a subsidiary, LLC Evropeyskaya Elektrotekhnika. Dividends were paid in Q3 2018.

In 2018, payments were made in favour of participants under finance lease agreements (see Note 21) in the amount of RUB 18,805,000 (in 2017: RUB 21,664,000).

## Additional paid-in capital

Effect of discounting loans provided to LLC EC Evropeyskaya Elektrotekhnika by related parties, Ilya Kalenkov and Sergey Dubenok, on 14 December 2017 in the amount of RUB 200 mln until 31 December 2042, including annual interest rate of 4% is accounted for as additional capital in the amount of RUB 127,194,000.

## Long-term and short-term borrowings and loans

	31 December 2018	31 December 2017
<b>Long-term loans and borrowings</b>		
Individuals - related parties	41,007	38,165
<b>Total long-term borrowings and loans</b>	<b>41,007</b>	<b>38,165</b>
<b>Short-term loans and borrowings</b>		
Individuals - related parties	2,016	373
<b>Total borrowings and loans</b>	<b>43,023</b>	<b>38,538</b>

As at 31 December 2018, borrowings and loan from related parties amounted to RUB 200 mln for the period of 25 years at the interest rate of 4%. Present value of borrowings amounted to RUB 43,023,000 as at 31 December 2018.

## Accounts payable and estimated liabilities

	31 December 2018	31 December 2017
Trade payables	275,293	327,756
Advances received	118,374	64,381
Taxes and fees payable, net of profit tax	32,677	18,418
Profit tax payable	14,115	25,585
Estimated liabilities	9,208	4,663
Wages and salaries payable	5,999	65
Other accounts payable	166	1,065
<b>Total accounts payable</b>	<b>455,822</b>	<b>441,933</b>

Short-term payables in 2018 were repaid within 26 days on average (2017: 51 days). Trade and other payables are non-interest.

As at 31 December 2018, payables included provision for vacations of RUB 9,208,000 (2017: RUB 4,663,000).

## FINANCE LEASES PAYABLE

In the ordinary course of business, finance lease transactions are concluded at market prices or above-market prices. Non-residential finance lease agreements were concluded with individual entrepreneur, Bychkova Olga (concluded on 1 September 2008, in the amount of RUB 32,320,000, for 25 years) and individual entrepreneur, Dubenok Tatiana (concluded on 1 June 2014, in the amount of RUB 19,444,000, for 25 years).

### As at 31 December 2018, finance leases were reported as follows:

	31 December 2018	31 December 2017
Long-term finance leases payable	50,291	50,640
Short-term finance leases payable	349	278
Total finance lease liabilities	50,640	50,918
		For the year ended
	31 December 2018	31 December 2017
Finance expenses	(11,669)	(11,725)
Administrative expenses (reversal)	11,947	11,947
Impact on net profit for the year	278	222

In 2018, payments to participants in the amount of RUB 18,805,000 (2017: RUB 21,664,000) were recognised in equity.

All finance lease payables are denominated in currency of the Russian Federation - the Russian rouble.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Finance lease liabilities				
Short-term	11,947	11,947	349	278
1 to 5 years	47,789	47,789	3,472	976
Over 5 years	142,522	154,470	46,819	49,664
Total	202,258	214,206	50,640	50,918
Net of future financing costs	(151,618)	(163,288)	–	–
Present value of minimum lease payments	50,640	50,918	50,640	50,918

## OPERATING LEASES

Operating leases have different terms and mostly represent short-term space leases for regional offices and logistics centres (with the automatic renewal clause), as well as a long-term land lease for land plot for with warehousing property in the Moscow Region. The contracts contain reservations about a possible annual review of rents and contract terms.

Total operating lease expenses for the years ended 31 December 2018 and 31 December 2017 amounted to RUB 16,449,000 and RUB 8,524,000, respectively. These expenses were recognised as administrative and selling expenses in the consolidated statement of profit or loss and other comprehensive income.

## CAPITAL COMMITMENTS

As at 31 December 2018, the Group had no capital commitments.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group has no financial assets and financial liabilities traded on active liquid markets, which fair value could be determined at their quotation price. The fair value measurement is aimed at determining the price that would be received through the sale of an asset or paid through the transfer of a liability in an orderly transaction between market participants at the measurement date. Nevertheless, given uncertainty and subjectivity of judgements, fair value should not be interpreted as actual price in case of immediate sale of assets or transfer of liabilities.

Fair value of financial assets and financial liabilities of the Group is determined in accordance with generally accepted models based on the analysis of discounted cash flows using prices of actual market transactions. The Management believes that fair value of financial assets and liabilities of the Group does not differ significantly from their present value as at 31 December 2018.

The following table presents an analysis of fair value of principal financial instruments, which are not measured at fair value by level of the fair value hierarchy.

As of 31 December 2018

	Level 1	Level 2	Level 3	Total
Assets, for which fair values are disclosed:				
Long-term loans issued	–	–	4,724	4,724
Short-term loans issued	–	–	2,555	2,555
Cash and cash equivalents	246,758	–	–	246,758
<b>Total financial assets</b>	<b>246,758</b>	<b>–</b>	<b>7,279</b>	<b>254,037</b>
Liabilities, for which fair values are disclosed:				
Long-term finance leases payable	–	–	50,291	50,291
Short-term finance leases payable	–	–	349	349
Short-term loans and borrowings	–	–	–	–
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>50,640</b>	<b>50,640</b>

As of 31 December 2017

	Level 1	Level 2	Level 3	Total
Assets, for which fair values are disclosed:				
Long-term loans issued	–	–	1,256	1,256
Short-term loans issued	–	–	12 554	12 554
Cash and cash equivalents	209,782	–	–	209,782
<b>Total financial assets</b>	<b>209,782</b>	<b>–</b>	<b>13,810</b>	<b>223,592</b>
Liabilities, for which fair values are disclosed:				
Long-term finance leases payable	–	–	50,640	50,640
Short-term finance leases payable	–	–	278	278
Short-term loans and borrowings	–	–	373	373
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>51 291</b>	<b>51 291</b>

## RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties may enter into transactions which unrelated parties might not. In addition, such transactions may be effected on the terms other than those between unrelated parties.

Related party transactions are disclosed in aggregate form for participants and companies under control of participants. Moreover, every period allows an additional disclosure of certain significant transactions (balances and turnovers) with certain related parties. Balances on settlements and transactions between the companies of the Group were eliminated during consolidation, and information about them is not disclosed in this note.

**Related parties of the Group are:**

	Host country	Activities
<b>Individuals</b>		
Ilya Kalenkov	Russia	CEO, shareholder of the Company
Sergey Dubenok	Russia	Shareholder of the Company
Mikhail Baskov	Russia	Member of the Board of Directors
Vladimir Grubenko	Russia	Member of the Board of Directors
Andrey Smirnov	Russia	Member of the Board of Directors
Joel Lautier	France	Member of the Board of Directors
Alexey Naydenkov	Russia	LLC Evropeyskaya Elektrotekhnica - North-West, CEO
Habir Kilmukhametov	Russia	General Director of LLC ROG-Engineering
	Host country	Activities
<b>Legal entities</b>		
LLC Evropeyskaya Elektrotekhnica - Novosibirsk	Russia	Other related parties
LLC Evropeyskaya Elektrotekhnica - Povolzhye	Russia	Other related parties
LLC Evropeyskaya Elektrotekhnica - Samara	Russia	Other related parties
LLC Evropeyskaya Elektrotekhnica - Ufa	Russia	Other related parties
LLC Engineering Center Techstroy	Russia	Other related parties
LLC Eltek	Russia	Other related parties
LLC Centerstroy	Russia	Other related parties
LLC Evropeyskaya Elektrotekhnica - Krasnodar	Russia	Other related parties
Individual entrepreneur Bychkova Olga	Russia	Other related parties
Individual entrepreneur Dubenok Tatiana	Russia	Other related parties
Individual entrepreneur Pavel Galanin	Russia	Other related parties
Individual entrepreneur Alexey Naydenkov	Russia	Other related parties

The information on the Group's transactions with related parties is presented below.

**Remuneration for key management personnel**

Remuneration for key management personnel for 2018 amounted to RUB 5,804,000 (2017: RUB 3,911,000). This remuneration includes exclusively short-term compensation. The Group did not make any other payments to key management personnel. Debt balances at the end of every reporting period were insignificant.

**Related party transactions**

During 2018 and 2017, the Group's enterprises made the following transactions with other related parties.

	For the year ended	
	31 December 2018	31 December 2017
Other revenues	41,690	143,245
Other expenses	(70,536)	(426)
Total operating activities	(28,846)	142,819
Finance income	–	–
Finance expenses	(11,947)	(11,947)
<b>Total financing activities</b>	<b>(11,947)</b>	<b>(11,947)</b>
Interest on loans issued	–	–
Loans issued	–	10,379
<b>Total investing activities</b>	<b>–</b>	<b>10,379</b>

During 2018 and 2017, the Group's enterprises made the following transactions with shareholders.

	For the year ended	
	31 December 2018	31 December 2017
Other revenues	–	59,107
Other expenses	–	(1,873)
<b>Total operating activities</b>	<b>–</b>	<b>57,234</b>
Dividends and similar payments to participants	–	–
Dividends and similar payments to participants	(18,805)	(21,670)
<b>Total financing activities</b>	<b>(18,805)</b>	<b>(21,670)</b>
Finance income	136	3,051
Finance expenses	(8,000)	–
Short-term loans issued	–	(178,000)
Repayment of short-term loans issued	31,000	178,000
Total investing activities	23,136	3,051

On 17 April 2017, the charter capital of LLC Evropeyskaya Elektrotekhnica was increased by RUB 738 mln. Additional contributions of the participants, Sergey Dubenok and Ilya Kalenkov, were paid with ordinary shares of PJSC Evropeyskaya Elektrotekhnica at the estimated value of RUB 7,38 per share.

On 9 November 2017, 99% of the charter capital of LLC Evropeyskaya Elektrotekhnica were sold to LLC Evropeyskaya Elektrotekhnica - North-West. Part of the debt under this assignment agreement in the amount of RUB 66 mln was transferred to LLC Evropeyskaya Elektrotekhnica.

On 20 April 2018, PJSC Evropeyskaya Elektrotekhnica purchased 50% stake in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West from Sergey Dubenok with the nominal value of RUB 50,000 at the estimated value of RUB 97 mln and 50% stake in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West from Ilya Kalenkov with the nominal value of RUB 50,000 at the estimated value of RUB 97 mln.

Debt balances with other related parties at the end of every reporting period are presented in the table below.

	31 December 2018	31 December 2017
Short-term loans issued	–	34,247
Accounts receivable and prepayments	3,353	25,364
Accounts payable and estimated liabilities	(4,134)	–
<b>Total</b>	<b>781</b>	<b>59,611</b>

Debt balances with shareholders at the end of every reporting period are presented in the table below.

	As at 31 December 2018	As at 31 December 2017
Long-term loans and borrowings	41,007	38,165
Short-term loans issued	–	6,207
Short-term loans and borrowings	2,016	373
<b>Total</b>	<b>43,023</b>	<b>44,745</b>

## Loans issued to shareholders

In 2018, loans previously issued to shareholders were fully repaid.

In 2017, there were the following transactions with loans issued to shareholders:

Sergey Dubenok - a loan issued at 8% and with a loan term of 12 months:

Balance as of 1 January 2017	Issued	Repaid	Balance as of 31 December 2017	Data on debt repayment
6,500	62,000	(53,000)	15,500	RUB 20 mln in cash RUB 33 mln under assignment agreement with LLC Evropeyskaya Elektrotehnica - North-West

Ilya Kalenkov - a loan issued at 8% and with a loan term of 12 months.

Balance as of 1 January 2017	Issued	Repaid	Balance as of 31 December 2017	Data on debt repayment
2,500	66,000	(53,000)	15,500	RUB 20 mln in cash RUB 33 mln under assignment agreement with LLC Evropeyskaya Elektrotehnica - North-West

Sergey Dubenok - a loan issued at 8% with a loan term of 12 months.

Balance as of 1 January 2017	Issued	Repaid	Balance as of 31 December 2017	Data on debt repayment
–	25,000	(25,000)	–	Promissory note of LLC EC Evropeyskaya Elektrotehnica

Ilya Kalenkov - a loan issued at 8% and with a loan term of 12 months.

Balance as of 1 January 2017	Issued	Repaid	Balance as of 31 December 2017	Data on debt repayment
–	25,000	(25,000)	–	Promissory note of LLC EC Evropeyskaya Elektrotehnica

## CONTINGENCIES AND COMMITMENTS

### Legal claims

The Group is involved as a plaintiff in a number of court proceedings, which arose in the course of business. The Management believes that there are no such current legal proceedings or claims, which could have a material effect on the results of operations or financial position of the Group.

### Taxation

The Russian commercial, including tax, laws, the Group is operating under, are subject to varying interpretations and frequent change. There is also risk of arbitrary decisions on business operations taken by tax authorities. If any specific actions based on management's judgments about the Group's business operations are challenged by the tax authorities, the Group can be charged with additional taxes, penalties, and interest.

Management of the Group believes that all necessary taxes are accrued and there are no corresponding provisions to be created in the statements.

From 1 January 2012, principles according to which market prices are determined have been changed for the purposes of tax control, lists of persons who can be considered interdependent and lists of controlled transactions have been extended. Since practice of enforcement of new rules has not been established so far and certain norms of the new law are contradictory, they cannot be classified as well-defined.

In order to eliminate significant impact of risks arising from transactions between interdependent persons on the combined financial statements, the Company has developed methodologies of pricing based on key types of controlled transactions between interdependent persons and conducts annual research of databases in order to determine market price level (profitability) for controlled transactions.

The Group believes that the risks associated with pricing in intra-group transactions in 2017–2018 will not have a material impact on its financial position and performance results.

## EVENTS AFTER THE REPORTING DATE

As of the reporting date, there are no significant events after the reporting date.

# ENERGY

## Resources Used

	Amount (by volume)	Amount (by value, RUB)
Nuclear	–	–
Thermal energy, Gcal	4271	710,511.0
Electricity, kWh	298,292.0	1,572,893.1
Electromagnetic energy	–	–
Oil	–	–
Motor gasoline, l	23,521.7	889,487.9
Diesel fuel, l	39,820.7	1,439,140.9
Fuel oil	–	–
Natural gas, cu.m	126.3	648,983.0
Coal	–	–
Oil shale	–	–
Turf	–	–
Others	–	–

# LIST

## of Major Transactions and Related-Party Transactions made by the issuer

### TRANSACTION NO. 1

Transaction Date: 22 February 2018

Subject and other material terms of the transaction:

The Surety shall be liable to the Bank for the Principal's fulfilment of all obligations under Agreement No. 541 on the provision of bank guarantees of 29 November 2017. Obligations, the performance of which is ensured by the Agreement, include, but not limited to:

- ▶ obligations to reimburse the amounts paid by the Guarantor to the Beneficiary under the Guarantee;
- ▶ obligations to pay fees for the forced diversion of funds and other payments under the Bank Guarantee Agreement;
- ▶ obligation to pay forfeit;
- ▶ court fees and other expenses of the Bank related to the exercise of rights under the Bank Guarantee Agreement and this Agreement;
- ▶ reimbursement of the amounts paid by the Guarantor to the Beneficiary under the Guarantee and interest on third-party money accrued in accordance with Art. 395 of the Civil Code of the Russian Federation for the indicated amounts if the Agreement on the provision of a bank guarantee and (or) the Guarantee is invalid or the Agreement on the provision of a bank guarantee is declared null and void.

The total amount of the concurrent Guarantees (hereinafter - the Limit) may not exceed RUB 450,000,000.00 (four hundred and fifty million).

Guarantees worth not more than RUB 300,000,000 (three hundred million) in favour of the beneficiaries:

- ▶ Russian Federation, constituent entities of the Russian Federation and municipalities - the contract is concluded under Federal Law No. 44 – FL "On the Contract System of the Federal and Municipal Procurement of Goods, Works and Services";
- ▶ legal entities partially owned by the government - the contract is concluded under Federal Law No. 223 – FL "On Procurement of Goods, Work, and Services by Certain Types of Legal Entities";
- ▶ a large private commercial organisation (annual revenue - over RUB 10,000,000,000 (ten billion));

Guarantees worth not more than RUB 50,000,000 (fifty million) in favour of other beneficiaries.

The Limit is valid from the date of conclusion of the Bank Guarantee Agreement to 28 November 2020.

#### Parties and beneficiaries to the transaction

Public Joint Stock Company Sberbank of Russia (hereinafter - the Bank, the Guarantor).

Public Joint-Stock Company Evropeyskaya Elektrotehnica (hereinafter - the Surety)

Beneficiary: Limited Liability Company Engineering Centre Evropeyskaya Elektrotehnica (LLC EC Evropeyskaya Elektrotehnica, address: 17, Building 2, Office 9, Marshal Timoshenko Ul., Moscow, 121359, OGRN 1087746603340, TIN 7731593655, KPP 773101001) (hereinafter - the Principal).

Beneficiaries: legal entities - customers of works on the construction of power supply systems, design, supply of equipment and materials, commissioning and installation works presented in the field, including, but not limited to: oil and gas complex, energy, engineering, transport, telecommunications services and communications, chemical, food, metallurgical, mining industries, the military-industrial complex, the State Corporation, including Rosatom and others, public, trade and office sites.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of conclusion of the agreement to 28 November 2023.

The size (price) of the transaction in monetary terms: RUB 450,000,000

The size (price) of the transaction as a percentage of the value of the issuer's assets, the size at the end of the last completed reporting period preceding the date of the transaction:  
▶ 73.55%.

The issuer's governing body that made the decision to agree to the transaction or on the subsequent approval of the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotehnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation and Minutes number: 20 February 2018, Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of the Public Joint-Stock Company Evropeyskaya Elektrotehnica



## TRANSACTION NO. 2

Transaction Date: 22 February 2018

Subject and other material terms of the transaction:

The Surety shall be liable to the Bank for the Principal's fulfilment of all obligations under Agreement No. 542 on the provision of bank guarantees of 29 November 2017.

Obligations, the performance of which is ensured by the Agreement, include, but not limited to:

- ▶ obligations to reimburse the amounts paid by the Guarantor to the Beneficiary under the Guarantee;
- ▶ obligations to pay fees for the forced diversion of funds and other payments under the Bank Guarantee Agreement;
- ▶ obligation to pay forfeit;
- ▶ court fees and other expenses of the Bank related to the exercise of rights under the Bank Guarantee Agreement and this Agreement;
- ▶ reimbursement of the amounts paid by the Guarantor to the Beneficiary under the Guarantee and interest on third-party money accrued in accordance with Art. 395 of the Civil Code of the Russian Federation for the indicated amounts if the Agreement on the provision of a bank guarantee and (or) the Guarantee is invalid or the Agreement on the provision of a bank guarantee is declared null and void.

The total amount of the concurrent Guarantees (hereinafter - the Limit) may not exceed RUB 300,000,000.00 (three hundred million).

Guarantees worth not more than RUB 100,000,000 (one hundred million) in favour of the beneficiaries:

- ▶ Russian Federation, constituent entities of the Russian Federation and municipalities - the contract is concluded under Federal Law No. 44 – FL "On the Contract System of the Federal and Municipal Procurement of Goods, Works and Services";
- ▶ legal entities partially owned by the government - the contract is concluded under Federal Law No. 223 – FL "On Procurement of Goods, Work, and Services by Certain Types of Legal Entities";
- ▶ a large private commercial organisation (annual revenue - over RUB 10,000,000,000 (ten billion));

Guarantees worth not more than RUB 30,000,000 (thirty million) in favour of other beneficiaries.

The Limit is valid from the date of conclusion of the Bank Guarantee Agreement to 28 May 2019.

### Parties and beneficiaries to the transaction

Public Joint Stock Company Sberbank of Russia (hereinafter - the Bank, the Guarantor).

Public Joint-Stock Company Evropeyskaya Elektrotekhnica (hereinafter - the Surety)

Beneficiary: Limited Liability Company Engineering Centre Evropeyskaya Elektrotekhnica (LLC EC Evropeyskaya Elektrotekhnica, address: 17, Building 2, Office 9, Marshal Timoshenko Ul., Moscow, 121359, OGRN 1087746603340, TIN 7731593655, KPP 773101001) (hereinafter - the Principal).

Beneficiaries: legal entities - customers of works on the construction of power supply systems, design, supply of equipment and materials, commissioning and installation works presented in the field, including, but not limited to: oil and gas complex, energy, engineering, transport, telecommunications services and communications, chemical, food, metallurgical, mining industries, the military-industrial complex, the State Corporation, including Rosatom and others, public, trade and office sites.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of conclusion of the agreement to 28 May 2022.

The size (price) of the transaction in monetary terms: RUB 300,000,000.

The size (price) of the transaction as a percentage of the value of the issuer's assets, the size at the end of the last completed reporting period preceding the date of the transaction:

- ▶ 49.03%.

The issuer's governing body that made the decision to agree to the transaction or on the subsequent approval of the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation: 20 February 2018,

Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica.

Transactions No. 1 and 2 are interconnected, and in accordance with the legislation of the Russian Federation are recognised as major.

## TRANSACTION NO. 3

Transaction Date: 20 April 2018.

Subject and other material terms of the transaction:

- ▶ purchase and sale of 100% shares in the charter capital of Evropeyskaya Elektrotekhnica - North-West.
- ▶ Sergey Dubenok sold his stake (50%) in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West to PJSC Evropeyskaya Elektrotekhnica, and PJSC Evropeyskaya Elektrotekhnica purchased the specified share from Sergey Dubenok. Settlement between the parties will be made during the term of fulfilment of obligations under the transaction. The parties agreed that the pledge for the indicated share does not arise with Sergey Dubenok.

### Parties and beneficiaries to the transaction:

The seller of the share is Sergey Dubenok.

The Buyer is Public Joint-Stock Company Evropeyskaya Elektrotekhnica.

There are no beneficiaries to the transaction.

Information about the person (people) recognised in accordance with the legislation of the Russian Federation as a related party (parties): Sergey Dubenok.

The grounds, on which such a party is recognised as related: According to paragraph 1 of Art. 81 of Federal Law dated 26 December 1995 No. 208 – FL "On Joint-Stock Companies", Dubenok Sergey is a related party to the transaction of the sale of shares in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West between Sergey Dubenok and PJSC Evropeyskaya Elektrotekhnica, the former is a member of the Board of Directors of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica - the Buyer, and the Party to the transaction - the Seller.

The size (price) of the transaction in monetary terms: RUB 97,000,000.

The size (price) of the transaction as a percentage of the carrying value of the issuer's assets at the end of the last completed reporting period preceding the date of the transaction:

- ▶ 13.22%.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of the notarisation of the agreement to 11 April 2019.

The issuer's governing body that made the decision to approve the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation and Minutes number: 20 February 2018, Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of Public Joint-Stock Company Evropeyskaya Elektrotekhnica

## TRANSACTION NO. 4

Transaction Date: 20 April 2018.

Subject and other material terms of the transaction: purchase and sale of 100% shares in the charter capital of Evropeyskaya Elektrotekhnica - North-West.

Ilya Kalenkov sold his stake (50%) in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West to PJSC Evropeyskaya Elektrotekhnica, and PJSC Evropeyskaya Elektrotekhnica purchased the specified share from Ilya Kalenkov. Settlement between the parties will be made during the term of fulfilment of obligations under the transaction. The parties agreed that the pledge for the indicated share does not arise with Ilya Kalenkov.

### Parties and beneficiaries to the transaction:

The seller of the share is Ilya Kalenkov.

The Buyer is Public Joint-Stock Company Evropeyskaya Elektrotekhnica.

There are no beneficiaries to the transaction.

Information about the person (people) recognised in accordance with the legislation of the Russian Federation as a related party (parties): Ilya Kalenkov

The grounds, on which such a party is recognised as related: According to paragraph 1 of Art. 81 of Federal Law dated 26 December 1995 No. 208 – FL "On Joint-Stock Companies", Ilya Kalenkov is a related party to the transaction of the sale of shares in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West between and PJSC Evropeyskaya Elektrotekhnica, the former is a member of the Board of Directors, CEO of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica - the Buyer, and the Party to the transaction - the Seller.

The size (price) of the transaction in monetary terms: RUB 97,000,000.

The size (price) of the transaction as a percentage of the carrying value of the issuer's assets at the end of the last completed reporting period preceding the date of the transaction:  
▶ 13.22%.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of the notarisation of the agreement to 11 April 2019.

The issuer's governing body that made the decision to approve the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation and Minutes number: 20 February 2018, Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of Public Joint-Stock Company Evropeyskaya Elektrotekhnica

Transactions No. 3 and No. 4 are interrelated, and in accordance with the legislation of the Russian Federation are recognised as major transactions and as related-party transactions as well.

# REPORT ON COMPLIANCE with Principles and Recommendations of the Code of Corporate Governance

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
1.1	The Company shall provide for equal and fair treatment of all shareholders when they exercise their right to participate in the Company's management.			
1.1.1	The Company creates maximally favourable conditions for shareholders participation in the General Meeting, for working out a justified position on the General Meeting agenda items, for coordinating their activities, as well as for expressing their opinions on the issues under consideration.	1. There exists a publicly available internal document of the Company approved by the General Meeting of Shareholders and regulating the procedures for holding the General Meeting. 2. The Company provides an accessible way to communicate with the Company, such as a hot line, e-mail, or forum on the Internet that allows shareholders to express their opinions and send in questions regarding the agenda during preparation for the General Meeting. The above said steps were taken by the Company before each General Meeting held in the reporting period.	<b>V observed</b>  partially observed  not observed	

Corporate Governance No. Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
11.2	The procedure for notification on holding the General Meeting and provision of materials for the General Meeting gives the shareholders an opportunity to properly prepare for their participation in it.	1. Notification on holding a General Meeting of Shareholders is posted (published) on the website no later than 30 days before the date of the General Meeting. 2. Notification on holding a Meeting specifies a location of the meeting and the documents required for admission to the building.  3. Shareholders were provided with access to information about who proposed agenda items and who proposed nominees to the Board of Directors and the Audit Commission of the Company.	observed  V Partially observed  not observed  Note to para 2 of assessment criteria In notifications on holding a General Meeting of Shareholders in 2018 no documents required for admission to a building were mentioned.  During the course of the issuer's plans implementation as relates to improvement of corporate government and adherence to maximum compliance with the recommendations of the Code of Corporate Government (recommended for use by the Central Bank of the Russian Federation; hereinafter - the Code), as well as introduction of new corporate procedures, there were some omissions, which are supposed not to be allowed by the issuer in future.  The above said deviation from the Code recommendations had no influence on rights and opportunities of the shareholders in participation in all General Meetings of Shareholders held in 2018 and in previous years. It should be noted that in case of some doubts regarding the documents required for admission to a building where the meetings took place, the shareholders had an opportunity to address to the issuer by phone or by email, which were specified on the issuer's official website and on the website of the agency authorised for information disclosure.  Since 2019, all notifications on holding a General Shareholder Meeting shall be added with this information.
11.3	During preparing and holding the General Meeting, the shareholders were able to receive information about the meeting and its related materials in a timely and unconstrained manner, ask questions to the executive bodies and the members of the Board of Directors, and communicate with each other.	1. During the reporting period, shareholders were given an opportunity to ask questions to the members of the executive bodies and the Board of Directors before and during the Annual General Meeting. 2. The positions of the Board of Directors (including special opinions included in the Minutes) on each item of the agenda of the General Meetings conducted within the reporting period were included in the materials for the General Meeting of Shareholders.  3. The Company provided the entitled shareholders with access to the list of people entitled to participate in the General Meeting starting from the date of the list receipt by the Company for every General Meeting held in the reporting period.	<b>V observed</b>  partially observed  not observed

Corporate Governance No. Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
11.4	The exercise of a shareholder's right to demand convocation of the General Meeting, to nominate candidates to the governing bodies, and to submit proposals to be included in the agenda of the General Meeting did not involve undue difficulties.	1. During the reporting period, shareholders had an opportunity to submit proposals to be included in the agenda of the Annual General Meeting for at least 60 days following the end of the respective calendar year. 2. During the reporting period, the Company did not reject any proposals for the agenda or candidates for the Company's executive bodies due to typographical errors or other nonessential flaws present in a shareholder's proposal.	observed  <b>V partially observed</b>  not observed  Note to para 1 of assessment criteria An opportunity to submit proposals to be included in the agenda of the Annual General Meeting for at least 60 days following the end of the respective calendar year was fixed in the Charter since December 2018, so in the reporting period the shareholders had no opportunity to exercise this right. The right will be available for the shareholders in 2019.
11.5	Each shareholder had the opportunity to exercise his/her right to vote in a unconstrained manner using the easiest and most convenient means.	1. The internal document (internal policy) of the Company contains provisions pursuant to which each participant of the General Meeting is entitled, before the completion of the meeting in question, to request a copy of their completed ballot certified by the Tally Commission.	<b>V observed</b>  partially observed  not observed
11.6	The General Meeting procedure established by the Company provides equal opportunities for all persons attending the meeting to express their opinions and ask any questions.	1. During the General Meetings of Shareholders held in the reporting period in the form of a meeting (collective attendance of shareholders), there was sufficient time provided for reports concerning the agenda issues and time to discuss such issues. 2. Candidates for the Company's governing and control bodies were available to answer questions asked by the shareholders at the meeting where their nominations were voted upon.  3. When making decisions related to preparing and holding the General Meetings during the reporting period, the Board of Directors considered the use of telecommunications facilities to provide shareholders remote access for participation in General Meetings.	observed  <b>V partially observed</b>  not observed  Note to para 3 of assessment criteria When making decisions related to preparing and holding the General Meetings during the reporting period, the Board of Directors did not consider the use of telecommunications facilities to provide shareholders remote access for participation in General Meetings.  The issuer's management analysed the ratio of number of shareholders included into each list of persons entitled to participate in the General Meetings of Shareholders and actually attended all meetings hold by the issuer and number of General Meetings hold in the previous reporting periods. Also activity of shareholders interaction with the issuer by one of proposed communication line - email - was monitored. All abilities of the issuer on arranging the remote access for the shareholders to participate in the General Meetings were considered. Based on obtained information, the issuer's management concluded that in the reporting period it was not expedient to submit the issue on using the telecommunication means for the shareholders' remote participation in General Meetings for consideration by the Board of Directors.  The issuer's management intends to regularly analyse the shareholders' needs in excising their rights by remote access, as well as to review expediency and possibility of the above said way of communication for submitting to the Board of Directors for consideration.

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
1.2	Shareholders were given an equal and fair opportunity to participate in the Company's profits by receiving dividends.			
1.2.1	The Company has developed and implemented a transparent and clear mechanism for determining the amount of dividends and paying them.	1. The Company's dividend policy has been developed, approved by the Board of Directors, and disclosed. 2. If the dividend policy of the Company uses indicators from the Company's reporting to determine the amount of dividends, the relevant dividend policy provisions shall consider the indicators of consolidated financial statements.	<b>V observed</b>  partially observed  not observed	
1.2.2	The Company shall not make a decision on the payment of dividends if such a decision, without constituting a formal violation of the restrictions imposed by law, is economically unreasonable and may lead to the formation of misconceptions about the Company's activities.	1. The Company's dividend policy provides clear guidance on the financial/economic circumstances where the Company should not pay dividends.	<b>V observed</b>  partially observed  not observed	
1.2.3	The Company does not allow any deterioration of dividend rights for existing shareholders.	1. During the reporting period, the Company did not take any action leading to deterioration of the dividend rights of existing shareholders.	<b>V observed</b>  partially observed  not observed	
1.2.4	The Company is committed to prevent the shareholders from using the other ways of profit making (income) at the expense of the Company apart from dividends and disposal value.	1. To prevent the shareholders from using the other ways of profit making (income) at the expense of the Company apart from dividends and disposal value, the Company's internal documents establish control mechanisms that ensure timely identification and a procedure for the approval of transactions with persons affiliated (associated) with substantial shareholders (persons entitled to manage the votes from voting shares) in cases where the law does not formally recognize such transactions as related-party transactions.	<b>V observed</b>  partially observed  not observed	
1.3	The Corporate Governance System and its practices ensure equal conditions for all shareholders holding shares of one category (type), including minority (small) shareholders and foreign shareholders, as well as their equal treatment by the Company.			
1.3.1	The Company has created conditions for the fair treatment of each shareholder by the Company's governing and control bodies, including conditions that ensure inadmissibility of major shareholders' abuses in relation to minority shareholders.	1. During the reporting period, the procedures for managing potential conflicts of major shareholders' interests were effective, and conflicts between shareholders, if there were any, were given due attention by the Board of Directors.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
1.3.2	The Company takes no actions that lead or may lead to an artificial redistribution of corporate control.	1. Quasitresury shares are absent or did not vote during the reporting period.	observed  partially observed  <b>V not observed</b>	Note to para 1 of assessment criteria The Company has quasitresury shares. The issuer recognizes that quasitresury shares can influence the corporate control of the Company and seeks not to take any actions, which can lead to artificial redistribution of corporate control at the issuer.  However, the issuer cannot allow the General Shareholder Meeting not to take the decisions, which are required to be taken to provide proper governing and control bodies available in the interests of the Company's shareholders.  The quasitresury shares voting at the Annual General Shareholder Meeting in the reporting year was dictated by lack of right (stipulated by the law) of the Board of Directors members being the shareholders to vote on Audit Commission election issues. To avoid a risk of failure to elect a supervision and auditing body of the Company at the Annual General Shareholder Meeting, the quasitresury shares voted only on this issue of the agenda.  The Company takes no actions that lead or may lead to an artificial redistribution of corporate control.
1.4	Shareholders are provided with reliable and effective methods of accounting for rights to shares as well as with the possibility for free and unhindered disposal of the shares they hold.			
1.4	Shareholders are provided with reliable and effective methods of accounting for rights to shares as well as with the possibility for free and unhindered disposal of the shares they hold.	1. The quality and reliability of the Company's registrar activities for maintaining the register of securities holders meet the needs of the Company and its shareholders.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.1	The Board of Directors carries out the Company's strategic management, defines the basic principles and approaches to the Company's Risk Management and Internal Control System, controls the operations of executive bodies, and also exercises other key functions.			
2.1.1	The Board of Directors is responsible for making decisions related to the appointment to and release from executive body positions, inter alia, due to a failure of members of such bodies to perform their duties properly. The Board of Directors also supervises that the Company's executive bodies act in accordance with the approved development strategy and main lines of the Company's activities.	1. The Board of Directors has statutory powers to appoint to and release from a position, and also to define the contract terms for executive body members. 2. The Board of Directors has reviewed the report(s) of the sole executive body and the members of the collegial executive body on the Company's implementation of strategy.	<b>V observed</b> partially observed not observed	
2.1.2	The Board of Directors establishes the basic guidelines of the Company's activities in the long term, evaluates and approves the key performance indicators and core business objectives of the Company, and evaluates and approves the strategy and business plans for the Company's core activities.	1. During the reporting period, the Board of Directors meetings discussed issues related to progress in the implementation and actualization of the strategy, the approval of the financial and economic plan (budget) of the Company, and the consideration of criteria and indicators (including the interim ones) of the Company's strategy and implementation of its business plan.	<b>V observed</b> partially observed not observed	
2.1.3	The Board of Directors determines the principles of and approaches to the organization of the Risk Management and Internal Control System of the Company.	1. The Board of Directors has determined the principles of and approaches to the organization of the Risk Management and Internal Control System of the Company. 2. The Board of Directors has assessed the Risk Management and Internal Control System of the Company during the reporting period.	<b>V observed</b> partially observed not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.1.4	The Board of Directors determines the Company's policy on remuneration and/or reimbursement of expenditures (compensations) for the members of the Board of Directors, executive bodies, and other key executives of the Company.	1. The Company has developed and implemented a policy (policies) on the remuneration and/or reimbursement of expenditures (compensations) for members of the Board of Directors, executive bodies, and other key executives approved by the Board of Directors. 2. Issues related to such policy (policies) were examined during the reporting period at the Board of Directors meetings.	<b>V observed</b> partially observed not observed	
2.1.5	The Board of Directors plays a key role in prevention, detection, and resolution of internal conflicts between the Company's bodies, the Company's shareholders, and the Company's employees.	1. The Board of Directors plays a key role in prevention, detection, and resolution of internal conflicts. 2. The Company has created a system for identifying transactions associated with conflicts of interests and a system of measures aimed at resolving such conflicts.	<b>V observed</b> partially observed not observed	
2.1.6	The Board of Directors plays a key role in ensuring the transparency of the Company, timeliness and completeness of the Company's information disclosure, and unhindered shareholder access to the Company's documents.	1. The Board of Directors has approved the Regulations on Information Policy. 2. The Company has defined the persons responsible for implementation of the information policy.	<b>V observed</b> partially observed not observed	
2.1.7	The Board of Directors oversees the Company's corporate governance practice and plays a key role in the Company's significant corporate events.	1. During the reporting period, the Board of Directors examined the issue of corporate governance practices in the Company.	<b>V observed</b> partially observed not observed	
2.2	The Board of Directors is accountable to the Company's shareholders.			
2.2.1	Information about the operations of the Board of Directors is disclosed and submitted to shareholders.	1. The Company's Annual Report for the reporting period includes information on attendance of Board and Committee meetings by individual directors. 2. The Annual Report contains information on the main results of the assessment of the work of the Board of Directors carried out in the reporting period.	<b>V observed</b> partially observed not observed	
2.2.2	The Chairman of the Board of Directors is available for communication with the Company's shareholders.	1. The Company has a transparent procedure that enables shareholders to submit questions to the Chairman of the Board of Directors and their own position regarding such questions.	<b>V observed</b> partially observed not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.3	The Board of Directors is an effective and professional governing body of the Company capable of making objective independent judgments and decisions in the interest of the Company and its shareholders.			
2.3.1	Only persons who have an excellent business and personal reputation as well as knowledge, skills, and experience required to make decisions within the competence of the Board of Directors and necessary for the effective performance of its functions shall be elected as Board of Directors members.	1. The procedure for assessing the Board of Director's performance adopted by the Company includes, inter alia, the assessment of the professional qualifications of the Board of Directors members. 2. During the reporting period, the Board of Directors (or its Nomination Committee) assessed candidates for the Board of Directors from the perspective of whether or not they have sufficient experience, knowledge, business reputation, no conflicts of interest, etc.	<b>V observed</b>  partially observed  not observed	
2.3.2	The members of the Board of Directors are elected using a transparent procedure that allows shareholders to receive candidate-related information sufficient to provide insight into his/her personal and professional qualities.	1. In all cases of holding the General Shareholders' Meeting in the reporting period where the agenda included the issue of elections to the Board of Directors, the Company submitted to shareholders biographical data on all candidates for the position, results of the assessment of candidates conducted by the Board of Directors (or the Nomination Committee), and information on a candidate's adherence to the criteria of independence in accordance with recommendations 102 – 107 of the Code, and the written consent of the candidates for election to the Board of Directors.	<b>V observed</b>  partially observed  not observed	
2.3.3	The composition of the Board of Directors is balanced, inter alia, in terms of qualifications of its members and their experience, knowledge, and business qualities and enjoys the trust of shareholders.	1. Within the framework of the procedure for the Board of Directors performance assessment held in the reporting period, the Board of Directors has analysed its own needs related to professional qualifications, experience, and business skills.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.3.4	The number of members of the Board of Directors makes it possible to organise the activities of the Board of Directors in the most efficient manner, including the possibility of the formation of Board committees; it also enables a substantial minority of shareholders of the Company to elect the candidate they vote for to the Board of Directors.	1. Within the framework of the procedure for the assessment of the Board of Directors held during the reporting period, the Board of Directors has examined the issue concerning whether the number of members of the Board of Directors meets the Company's needs and shareholder interests.	<b>V observed</b>  partially observed  not observed	
2.4	The membership of the Board of Directors includes an adequate number of independent directors.			
2.4.1	An independent director is a person possessing enough professionalism, experience, and independence to form his/her own opinion, and one who is able to express unbiased and scrupulous judgments that are not influenced by the executive bodies of the Company, particular groups of shareholders, or other stakeholders. In addition, it should be noted that a candidate (selected to be a member of the Board of Directors) normally cannot be considered independent if he/she is associated with the Company or a major shareholder, contractor, or competitor thereof or is associated with the state.	1. During the reporting period, all independent members of the Board of Directors met all independence criteria set forth in recommendations 102 – 107 of the Code or were recognized as independent upon the decision of the Board of Directors.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.4.2	An assessment of whether the candidates to the Board of Directors comply with the independence criteria is carried out, and the regular analysis of whether independent members of the Board of Directors comply with the independence criteria is carried out. When carrying out this assessment, substance shall take precedence over form.	<p>1. During the reporting period, the Board of Directors (or the Nomination Committee of the Board of Directors) has formed an opinion on the independence of each candidate to the Board of Directors and has provided shareholders with a report to that effect.</p> <p>2. During the reporting period, the Board of Directors (or the Nomination Committee of the Board of Directors) has considered the independence of existing members of the Board of Directors whom the Company states in the Annual Report as independent directors at least once.</p> <p>3. The Company has developed procedures determining what a member of the Board of Directors must do if they cease to be independent, including the obligation to promptly report the fact to the Board of Directors.</p>	<p>observed</p> <p><b>V partially observed</b></p> <p>not observed</p>	<p>Note to para 1 of assessment criteria In the reporting period, each candidate to the Board of Directors suggested for proposal at the Meetings of Shareholders held in the reporting period was analysed for independence criteria specified in recommendations 102–107 of the Code, as well as in recommendations of the Moscow Exchange. However, no conclusions on independency of each candidate to the Board of Directors were submitted to the shareholders as a part of materials for the General Meetings.</p> <p>The structural units of the Company involved directly into implementation of the Board of Directors plans relating to the Company's corporate governance improvement seek to maximum achievement of the tasks they are faced. The issuer recognises that such kind of information must be submitted to the shareholders and will take its efforts to follow these recommendations in future.</p> <p>Note to para 3 of assessment criteria</p> <p>No procedures defining the directors' actions in case of lack of independence, including any obligations on timely addressing the issuer's Board of Directors with these facts, were developed.</p> <p>Two independent directors work in the Board of Directors, who comply with all independence criteria specified by the Code and developed by the Moscow Exchange.</p> <p>The directors' independence is regularly audited. All independent directors in force are aware of the criteria used to recognise a director as an independent one.</p> <p>The Board of Directors has planned development of these procedures for year 2019.</p>
2.4.3	Independent directors shall make up not less than one-third of the elected membership of the Board of Directors.	1. Independent directors shall make up not less than one-third of the membership of the Board of Directors.	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
2.4.4	Independent directors play a key role in preventing internal conflicts in the Company and carrying out some of the Company's significant corporate actions.	1. Independent directors (who have no conflicts of interest) pre-evaluate significant corporate actions related to possible conflict of interests and provide the Board of Directors with the results of this evaluation.	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.5	The Chairman of the Board of Directors shall facilitate the most effective fulfilment of the functions entrusted to the Board of Directors.			
2.5.1	The Chairman of the Board of Directors shall be an independent director, or a Senior Independent Director shall be determined from among the selected independent directors who coordinates the work of the independent directors and cooperates with the Chairman of the Board of Directors.	<p>1. The Chairman of the Board of Directors is an independent director, or a Senior Independent Director has been determined from among the independent directors.</p> <p>2. The role, rights, and liabilities of the Chairman of the Board of Directors (and the Senior Independent Director, if applicable) are appropriately defined in the internal documents of the Company.</p>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
2.5.2	The Chairman of the Board of Directors maintains a constructive atmosphere during meetings, ensures the free discussion of issues on the agenda, and supervises the execution of resolutions adopted by the Board of Directors.	1. The effectiveness of the Chairman of the Board of Directors has been evaluated within the procedure of evaluation for the Chairman of the Board's effectiveness in the reporting period.	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
2.5.3	The Chairman of the Board of Directors takes necessary measures to provide the members of the Board of Directors with the necessary information in a timely manner to adopt decisions on agenda items.	1. The internal documents of the Company establish the obligation of the Chairman of the Board of Directors to take measures to provide the members of the Board of Directors with materials on the agenda items of the Meeting of the Board of Directors in a timely manner.	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
2.6	The members of the Board of Directors shall reasonably, in good faith, and with due care and discretion perform their duties in the interests of the Company.			
2.6.1	The members of the Board of Directors shall make decisions taking into account all information, having no conflict of interests, and demonstrating equal treatment toward shareholders of the Company within the usual business risks.	<p>1. The internal documents of the Company establish that the members of the Board of Directors are obligated to notify the Board of Directors if they have a conflict of interest regarding any item on the agenda of the meeting of the Board of Directors or a committee of the Board of Directors before starting discussion on the relevant agenda issue.</p> <p>2. The internal documents of the Company stipulate that the members of the Board of Directors shall abstain from voting on any issue where there is a conflict of interest.</p> <p>3. The Company has established a procedure allowing the Board of Directors to obtain professional advice on issues related to its competence at the expense of the Company.</p>	<p>observed</p> <p><b>V partially observed</b></p> <p>not observed</p>	<p>Note to para 3 of assessment criteria The Company has no procedure allowing the Board of Directors to obtain professional advice on issues related to its competence at the expense of the Company.</p> <p>The issuer's management has reviewed an issue of giving the members of the Board of Directors such possibility. On the current stage, the Company is not planning to include the professional advice on issues related to the Board of Directors competence into expenditures, since it is considered that the competence of the existing members of the Board of Directors is at the level sufficient for taking professional decisions on their duties.</p> <p>At all accounts, the members of the Board of Directors have business contacts which are useful for obtaining advice from their business partners.</p>
2.6.2	The internal documents of the Company establish and clearly set forth the rights and obligations of the members of the Board of Directors.	1. The Company has adopted and released an internal document that clearly defines rights and obligations of the members of the Board of Directors.	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.6.3	The members of the Board of Directors have enough time to fulfil their obligations.	1. Individual attendance at the meetings of the Board and committees and the time allocated for the preparation to attendance at the meetings have been taken into account as part of the procedure of evaluation for the Board of Directors in the reporting period. 2. In accordance with the internal documents of the Company, members of the Board of Directors are obligated to notify the Board of Directors of their intention to be a member of the governing bodies of other entities (besides subsidiaries and dependent entities of the Company) and of the fact of such an appointment.	<b>V observed</b>  partially observed  not observed	
2.6.4	All members of the Board of Directors have equal opportunities to access the documents and information of the Company. Newly elected members of the Board of Directors are provided with sufficient information about the Company and the activities of the Board of Directors within the shortest time possible.	1. In accordance with the internal documents of the Company, members of the Board of Directors have a right to obtain access to documents and to make a request concerning the Company and its subsidiaries; the executive bodies of the Company are obligated to provide the relevant information and documents. 2. The Company has a formal program of informational meetings for newly elected members of the Board of Directors.	observed  <b>V partially observed</b>  not observed	Note to para 2 of assessment criteria The Company has no formal program of informational meetings for newly elected members of the Board of Directors.  In the effective Regulations on the Board of Directors of Evropeyskaya Elektrotekhnic all the procedures relating to the duties execution of the Board members are specified. The effective Regulations on the Board of Directors Committees also specify rights, duties, and obligations of the committees' members. These internal documents contain the list of issuer's data being accessible only for the Board of Directors' members. The internal documents of the Company allow for understanding the particular unit work specifics and receiving all required information for this work.  The most part of the Board of Directors is the employees of the issuer and its affiliates, which have been working at Evropeyskaya Elektrotekhnic Group of Company since its foundation. Absence of a formal program of informational meetings has had no effect on involving the independent directors elected to the Board into work. Due to an atmosphere of support and mutual assistance, the independent directors managed to quickly adopt to specifics of the Board work and arrange their efficient activities.  In 2018, the Board of Directors has planned development of these procedures for year 2019.

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.7	The Meeting of the Board of Directors, the preparation for it, and the participation of the members of the Board of Directors in it shall ensure the effective operation of the Board of Directors.			
2.7.1	The Meetings of the Board of Directors are held as required, taking into account the scale of activities and challenges the Company faces at the time.	1. The Board of Directors held at least six meetings in the reporting year.	<b>V observed</b>  partially observed  not observed	
2.7.2	The internal documents of the Company establish the procedure for preparing and conducting meetings of the Board of Directors and give an opportunity for the members of the Board of Directors to properly prepare for them.	1. The Company has approved an internal document defining the procedure for preparing and conducting meetings of the Board of Directors, which also establishes that notice of the meeting shall be given no less than 5 days before the date of the meeting.	<b>V observed</b>  partially observed  not observed	
2.7.3	The form of the meeting of the Board of Directors is determined based on the importance of the agenda items. The most important issues are solved at meetings held by personal attendance.	1. The Charter or internal documents of the Company stipulate that the most important issues (according to the list provided in recommendation 168 of the Code) shall be considered at the Board meetings held by personal attendance.	<b>V observed</b>  partially observed  not observed	
2.7.4	Resolutions on the most important issues of the Company's activities are adopted at a meeting of the Board of Directors by a qualified majority or a majority of votes of all elected members of the Board of Directors.	1. The Charter of the Company stipulates that resolutions on the most important issues stated in recommendation 170 of the Code shall be adopted at a meeting of the Board of Directors by a qualified majority (no less than three-quarters of the votes) or a majority of votes of all elected members of the Board of Directors.	<b>V observed</b>  partially observed  not observed	
2.8	The Board of Directors shall establish committees for preliminary consideration of the most important issues of the Company's activities.			
2.8.1	An Audit Committee consisting of independent directors has been created for the preliminary consideration of issues related to supervision of the financial and economic activities of the Company.	1. The Board of Directors has established an Audit Committee consisting solely of independent directors. 2. The internal documents of the Company determine the objectives of the Audit Committee, including objectives from recommendation 172 of the Code.  3. At least one member of the Audit Committee who is an independent director has experience and knowledge in preparation, analysis, assessment, and audit of accounting (financial) reports.  4. Meetings of the Audit Committee were held at least once a quarter during the reporting period.	<b>V observed</b>  partially observed  not observed	



No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.8.2	A Remuneration Committee, consisting of independent directors and headed by an independent director (not the Chairman of the Board of Directors), has been created for the preliminary consideration of issues related to development of effective and transparent practices of remuneration.	1. The Board of Directors has established a Remuneration Committee that consists only of independent directors. 2. The Chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors.  3. The internal documents of the Company define the objectives of the Remuneration Committee, including objectives from recommendation 180 of the Code.	<b>V observed</b>  partially observed  not observed	
2.8.3	A Nomination (HR) Committee, mostly composed of independent directors, has been created for preliminary consideration of issues related to staff planning (succession planning), occupational structure, and the performance of the Board of Directors.	1. The Board of Directors has established a Nomination Committee (or its objectives as stated in recommendation 186 of the Code are carried out by another Committee), mostly composed of independent directors. 2. The internal documents of the Company determine the objectives of the Nomination Committee (or the respective Committee with combined functions), including objectives from recommendation 186 of the Code.	<b>V observed</b>  partially observed  not observed	
2.8.4	Taking into account the scale of activities and the risk level, the Board of Directors has ascertained that the members of its committees fully comply with the goals of the Company's activities. Additional committees have been either created or deemed unnecessary (Strategy Committee, corporate governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.).	1. During the reporting period, the Board of Directors of the Company considered the issue of the committees members compliance with the objectives of the Board of Directors and the goals of the Company's activities. Additional committees have been either created or deemed unnecessary.	<b>V observed</b>  partially observed  not observed	The Code recommends to conduct the assessment at least once per three years.  The year 2018 was the third year of the Board of Directors work as a Company's governing body. It is planned to conduct independent performance assessment of the Board of Directors in 2019.
2.8.5	The composition of the committees is determined such as to allow comprehensive discussion of preliminarily considered issues, taking into account all different opinions.	1. The committees of the Board of Directors shall be headed by independent directors. 2. The internal documents (policies) of the Company include provisions under which persons who are not members of the Audit Committee, the Nomination Committee, or the Remuneration Committee can attend committee meetings only on invitation of the Chairman of the committee in question.	<b>V observed</b>  partially observed  not observed	
2.8.6	Chairmen shall regularly inform the Board of Directors and its Chairman on the activities of their committees.	1. During the reporting period, the chairmen shall regularly report on the activities of their committees to the Board of Directors.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
2.9	The Board of Directors shall provide a quality assessment of the activities of the Board of Directors along with its Committees and members.			
2.9.1	The quality assessment of the activities of the Board of Directors aims to define the performance of the Board of Directors, committees, and members of the Board of Directors and the compliance of their activities with the developmental needs of the Company, as well as to intensify the activities of the Board of Directors on detecting the areas where such activities may be improved.	1. Self-assessment or external assessment of the Board of Directors conducted during the reporting period included a performance assessment of committees, members of the Board of Directors, and the Board of Directors as a whole. 2. The results of self-assessment or external assessment of the Board of Directors conducted during the reporting period were reviewed at the meeting of the Board of Directors.	<b>V observed</b>  partially observed  not observed	
2.9.2	Performance of the Board of Directors and the committees and the members of the Board of Directors shall be assessed regularly at least once annually. A third-party organization (consultant) shall be engaged to conduct an independent performance assessment of the Board of Directors at least once every three years.	1. To conduct an independent performance assessment of the Board of Directors, the Company engaged a third-party organization (consultant) at least once in the last three reporting periods.	observed  partially observed  <b>V not observed</b>	Note to para 1 of assessment criteria No independent performance assessment of the Board of Directors was conducted in the reporting period.  The Code recommends to conduct the assessment at least once per three years.  The year 2018 was the third year of the Board of Directors work as a Company's governing body. It is planned to conduct independent performance assessment of the Board of Directors in 2019.
3.1	The Corporate Secretary of the Company shall ensure current effective interaction with shareholders and the coordination of Company activities to protect the rights and interests of its shareholders as well as provide support for the effective performance of the Board of Directors.			
3.1.1	The Corporate Secretary shall have sufficient knowledge, experience, qualifications to perform the obligations imposed on them, an impeccable reputation and also enjoy the confidence of shareholders.	1. The Company has adopted and disclosed an internal document, the Regulations on the Corporate Secretary. 2. The Company website and the Annual Report shall contain the biography of the Corporate Secretary with the same level of detail as that of the members of the Board of Directors and the executive management of the Company.	<b>V observed</b>  partially observed  not observed	
3.1.2	The Corporate Secretary shall have sufficient independence from executive bodies of the Company, as well as have authorities and resources required to perform their tasks.	1. The Board of Directors shall approve assignment, dismissal, and additional remuneration for the Corporate Secretary.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
4.1	The amount of remuneration paid by the Company shall be sufficient to engage, motivate, and retain persons with the competencies and skills necessary for the Company. Members of the Board of Directors, executive bodies, and other key executives of the Company shall be remunerated in accordance with the remuneration policy accepted in the Company.			
4.1.1	The amount of remuneration paid by the Company to the members of the Board of Directors, executive bodies, and other key managers shall create sufficient motivation for them to work effectively, thus allowing the Company to attract and retain competent and qualified specialists. At the same time, the Company avoids remuneration exceeding the necessary level as well as an unreasonably large gap between the remuneration amounts of said managers and the employees of the Company.	1. The Company has adopted an internal document (documents) or a remuneration policy (policies) for the members of the Board of Directors, the executive bodies, and other key executives that clearly defines approaches to the remuneration for said officers.	<b>V observed</b> partially observed not observed	
4.1.2	The remuneration policy of the Company was drafted by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, assisted by the Remuneration Committee, shall provide supervision over introduction and implementation of the remuneration policy and, if needed, review and make amendments thereto.	1. During the reporting period, the Remuneration Committee considered the remuneration policy (policies) and implementation practices and submitted appropriate recommendations to the Board of Directors where applicable.	<b>V observed</b> partially observed not observed	
4.1.3	The Company's Remuneration Policy contains transparent mechanisms for determining the amount of remuneration for members of the Board of Directors, executive bodies, and for other key executives of the Company and also regulates all payments, benefits, and privileges provided to the officials mentioned above.	1. The Company's Remuneration Policy (policies) contain(s) transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, the executive bodies, and other key executives of the Company and also regulate(s) all payments, benefits, and privileges provided to the officials mentioned above.	<b>V observed</b> partially observed not observed	
4.1.4	The Company shall define its reimbursement (compensation) policy specifying the list of expenses subject to compensation and the service level to which the members of the Board of Directors, the executive bodies, and other key managers of the Company are entitled. Such policy may be a part of the Company's Remuneration Policy.	1. The Company's Remuneration Policy (policies) or other internal documents establish(es) the compensation rules for the members of the Board of Directors, the executive bodies, and for other key executives of the Company.	<b>V observed</b> partially observed not observed	
4.2	The system for remuneration for the members of the Board of Directors shall ensure that the financial interests of the directors are brought closer to the long-term financial interests of the shareholders.			
4.2.1	The Company shall pay fixed annual remuneration to the members of the Board of Directors. The Company shall not pay remuneration for participation in individual meetings of the Board of Directors or committees thereof. The Company shall not use short-term motivation or additional material incentives in relation to the members of the Board of Directors.	1. Fixed annual remuneration was the only monetary remuneration provided to members of the Board of Directors for their activities therein during the reporting period.	<b>V observed</b> partially observed not observed	
4.2.2	Long-term possession of shares best facilitates bringing the financial interests of the directors closer to the long-term financial interests of the shareholders. At the same time, the Company shall not attach the condition of achievement of a certain level of performance to the right to sell shares, and the members of the Board of Directors shall not participate in option programs.	1. If the internal document(s) on the Remuneration Policy (policies) stipulate(s) provision of the Company's shares to the members of the Board of Directors, the Company shall set forth and disclose clear rules for shareholding by the members of the Board of Directors aimed at encouraging long-term possession of such shares.	observed partially observed <b>V not observed</b>	Note to para 1 of assessment criteria Not applicable for the Company.

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
4.2.3	The Company shall not provide any additional payments or compensations in case of early termination of powers of the members of the Board of Directors due to a change of control over the Company or other circumstances.	1. The Company shall not provide any additional payments or compensations in case of early termination of powers of members of the Board of Directors due to a change of control over the Company or other circumstances.	<b>V observed</b> partially observed not observed	
4.3	The system for remuneration for the members of executive bodies and other key executives of the Company shall provide for the dependence of the amount of remuneration on the performance results of the Company and their personal contribution to achieving these results.			
4.3.1	Remuneration for the members of executive bodies and other key executives shall be determined in such a way as to ensure a reasonable and justified ratio between the fixed part of remuneration and the variable part thereof, which depends on the Company performance results and the personal (individual) contribution of an employee to the final result.	1. During the reporting period, annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration for the members of executive bodies and other key executives. 2. In the course of the last assessment of the remuneration system for the members of executive bodies and other key executives, the Board of Directors (Remuneration Committee) ascertained that the Company uses an effective ratio between the fixed and variable parts of remuneration.  3. The Company applies a procedure that ensures the return of bonuses wrongly obtained by the members of executive bodies and other key executives.	observed <b>V partially observed</b> not observed	Note to para 3 of assessment criteria The Company applies no procedure that ensures the return of bonuses wrongly obtained by the members of executive bodies and other key executives.  The procedure of bonuses payment for the executive bodies and other key executives of Evropeyskaya Elektrotekhnica implies multi-stage agreement with different structural units of the issuer and the Board of Directors.  The measures taken by the issuer to agree the bonuses nullify possible risks of circumstances allowing to obtain such bonuses illegally. Therefore, the issuer considers development of procedures to return illegal bonuses from the executive bodies and other key executives of the Company to be inexpedient.

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
4.3.2	The Company has implemented a long-term incentive program for the members of executive bodies and other key executives using Company shares (options or other derivative financial instruments whose underlying asset is Company shares).	1. The Company has implemented a long-term incentive program for the members of executive bodies and other key executives using Company shares (financial instruments based on Company shares). 2. The long-term incentive program for the members of executive bodies and other key executives stipulates that the right to sell the shares or other financial instruments used in such program may be exercised not earlier than three years from the provision thereof. At the same time, the right to sell them is conditional upon the Company's achievement of certain performance indicators.	observed  partially observed  <b>V not observed</b>	Note to para 1, 2 of assessment criteria The Company has no long-term incentive program for the members of executive bodies and other key executives using Company shares (financial instruments based on Company shares).  Considering the scale of the Company's activities, a number of the Board of Directors members, and a number of independent directors, the issuer sees no reason to create the program on this stage of the Company's development.
4.3.3	The amount of compensation (a golden parachute) paid to the members of executive bodies or key executives in case of early termination of their powers at the initiative of the Company, provided there have been no unethical acts on the part of the officials mentioned, shall not exceed double the amount of the fixed part of their annual remuneration.	1. The amount of compensation (a golden parachute) paid to the members of executive bodies or key executives during the reporting period in case of early termination of their powers at the initiative of the Company, provided there have been no unethical acts on the part of the officials mentioned, did not exceed double the amount of the fixed part of their annual remuneration.	<b>V observed</b>  partially observed  not observed	
5.1	The Company has established an effective Risk Management and Internal Control System aimed at providing reasonable confidence in achieving the objectives set by the Company.			
5.1.1	The Board of Directors has defined principles and approaches to the organization of Risk Management and Internal Control System in the Company.	1. The functions of the Company's various governing bodies and units in the Risk Management and Internal Control System have been clearly defined in the internal documents/relevant policy approved by the Board of Directors.	<b>V observed</b>  partially observed  not observed	
5.1.2	The executive bodies of the Company shall ensure creation and maintenance of an effective Risk Management and Internal Control System.	1. The executive bodies of the Company have ensured the distribution of functions and powers for risk management and internal control between subordinate managers (heads) of units and departments.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
5.1.3	The Risk Management and Internal Control System of the Company shall ensure an objective, fair and clear vision of the current condition and perspectives of the Company, reporting integrity and transparency, and the reasonableness and acceptability of the risks accepted by the Company.	1. The Company has approved an anticorruption policy. 2. The Company has established an accessible means of informing the Board of Directors or the Audit Committee thereof about violations of the law, internal procedures, or the Code of Ethics of the Company.	<b>V observed</b>  partially observed  not observed	
5.1.4	The Board of Directors of the Company shall take the measures necessary to ensure that the current Risk Management and Internal Control System complies with the organizational principles and approaches defined by the Board of Directors and functions effectively.	1. During the reporting period, the Board of Directors or the Audit Committee thereof has assessed the effectiveness of the Risk Management and Internal Control System applied in the Company. Information on the main results of such assessment has been included in the Annual Report.	<b>V observed</b>  partially observed  not observed	
5.2	To conduct a systematic independent assessment of reliability and effectiveness of the Risk Management and Internal Control System and corporate governance practices, the Company shall arrange for internal auditing.			
5.2.1	To conduct internal auditing, the Company has established a separate structural unit or engaged an independent external organization. The functional and administrative accountability of the internal audit unit shall be clearly delineated. The internal audit unit shall functionally report to the Board of Directors.	1. To conduct internal auditing, the Company has established a separate structural unit functionally subordinated to the Board of Directors or the Audit Committee or engaged an independent external organization following the same accountability principle.	<b>V observed</b>  partially observed  not observed	
5.2.2	The internal audit unit shall conduct an assessment of effectiveness of the Internal Control System, the Risk Management System, and the Corporate Governance System. The Company shall apply generally accepted internal auditing standards.	1. During the reporting period, an internal audit provided an assessment of the effectiveness of the internal control and Risk Management System. 2. The Company uses generally accepted approaches to internal control and risk management.	<b>V observed</b>  partially observed  not observed	
6.1	The Company and its activities are transparent to the shareholders, the investors, and other stakeholders.			
6.1.1	The Company has elaborated and introduced an information policy that ensures effective information exchange between the Company, shareholders, investors, and other stakeholders.	1. The Board of Directors of the Company has approved an information policy based on the Code's recommendations. 2. The Board of Directors (or one of its committees) considered issues related to the Company's compliance with its information policy at least once during the reporting period.	<b>V observed</b>  partially observed  not observed	
6.1.2	The Company discloses information on the system and practice of corporate governance, including detailed information on compliance with the principles and recommendations set forth in the Code.	1. The Company discloses information on its Corporate Governance System and the general principles of corporate governance applied in the Company, including on its website. 2. The Company discloses information on the membership of executive bodies and the Board of Directors, the independence of the members of the Board, and their membership in committees of the Board of Directors (as defined in the <a href="#">Code</a> ).  3. If there is an entity that controls the Company, the latter shall publish a memorandum of the controlling entity on the plans of such entity related to corporate governance in the Company.	<b>V observed</b>  partially observed  not observed	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
6.2	The Company shall disclose full, relevant, and reliable information on the Company in a timely manner to provide the shareholders and the investors of the Company with an opportunity to make sound decisions.			
6.2.1	The Company shall disclose information in accordance with the principles of regularity, consistency, and promptness as well as the accessibility, reliability, fullness, and comparability of the data disclosed.	<ol style="list-style-type: none"> <li>The information policy of the Company shall define approaches and criteria for defining information that can significantly influence the assessment of the Company and the cost of its securities as well as procedures for ensuring the timely disclosure of such information.</li> <li>If the securities of the Company are traded in foreign organized markets, essential information shall be disclosed simultaneously and equivalently in Russia and in such markets during the reporting year.</li> <li>If foreign shareholders hold a significant number of the Company's shares, during the reporting period information was disclosed both in Russian and in one of the most widespread foreign languages.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
6.2.2	The Company avoids a formal approach to information disclosure and divulges essential information on its activities even if the disclosure of such information is not stipulated by the law.	<ol style="list-style-type: none"> <li>During the reporting period, the Company disclosed annual and semiannual financial statements prepared as per IFRS. The Annual Report for the reporting period includes summarized consolidated financial statements prepared as per audited consolidated financial statements along with the independent auditor's report.</li> <li>The Company discloses full information on the capital structure as per Recommendation 290 of the Code both in the Annual Report and on its website.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
6.2.3	The Annual Report, as one of the most important instruments of information exchange with shareholders and other stakeholders, shall contain information making it possible to evaluate the results of the Company's activities for the year.	<ol style="list-style-type: none"> <li>The Annual Report of the Company contains information about the key aspects of its operations and financial results.</li> <li>The Annual Report contains information about environmental and social aspects of the Company's activities.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
6.3	The Company provides information and documents at the request of shareholders in accordance with the principles of equal and unhindered access.			
6.3.1	Provision of information and documents by the Company at the request of shareholders in accordance with the principles of equal and unhindered access.	<ol style="list-style-type: none"> <li>The Company's information policy defines the procedure for providing shareholders with unhindered access to information, including information about controlled legal entities, at the shareholders' request.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
6.3.2	Provision of information to shareholders ensures a reasonable balance between the interests of certain shareholders and the interests of the Company itself, which is concerned with the confidentiality of important-commercial information that could significantly influence its competitiveness.	<ol style="list-style-type: none"> <li>During the reporting period, the Company did not refuse to satisfy shareholders' information requests, or such refusals were reasonable.</li> <li>In cases defined by the Company's Information Policy, shareholders are informed about the confidential nature of information and undertake to keep it in secret.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p> <p>not complied with</p>	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
7.1	Actions that significantly impact or could significantly impact the share capital structure and financial state of the Company and, consequently, the position of the shareholders (significant corporate actions), shall be taken in a fair manner, ensuring the observation of the rights and interests of the shareholders and other stakeholders.			
7.1.1	Reorganization of the Company, purchase of 30 percent or more of its voting shares (takeover), performance of significant transactions, an increase or decrease in the Company's share capital, listing or delisting of shares, and other actions that could result in significant changes to the shareholders' rights or violations of their interests shall be deemed significant corporate actions. The Charter of the Company defines the list (criteria) of transactions or other actions that are significant corporate actions, and such matters are reserved to the Board of Directors of the Company.	<ol style="list-style-type: none"> <li>The Charter of the Company defines the list of transactions or other actions that are significant corporate actions and the criteria for defining such actions. Making decisions on significant corporate actions is reserved to the competence of the Board of Directors. In cases when such corporate actions are expressly reserved by the law to the competence of the General Meeting of Shareholders, the Board of Directors shall provide shareholders with appropriate recommendations.</li> <li>The Charter of the Company deems at least the following actions to be significant corporate actions: reorganization of the Company, purchase of 30 percent or more of its voting shares (takeover), performance of significant transactions by the Company, an increase or decrease in the Company's share capital, and listing and delisting of its shares.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
7.1.2	The Board of Directors plays a key role in decision making or preparation of recommendations on significant corporate actions; the Board of Directors relies on the position of the Company's independent directors.	<ol style="list-style-type: none"> <li>The Company provides for a procedure for the independent directors to declare their position on significant corporate actions before the approval thereof.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
7.1.3	When performing significant corporate actions relating to the rights and legal interests of shareholders, the Company ensures equal terms for all the shareholders of the Company, and if legislation provides insufficient mechanisms for the protection of shareholders' rights, the Company shall take additional measures to protect rights and legal interests of its shareholders. In this case, the Company relies both on compliance with the formal requirements of the law and the principles of corporate governance set forth in the Code.	<ol style="list-style-type: none"> <li>Considering particular aspects of the Company's activities, the Charter determines criteria for classifying the Company's transactions as significant corporate transactions that are lower than the minimal criteria determined by the law.</li> <li>During the reporting period, all significant corporate actions underwent the approval procedure before they were taken.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	
7.2	The Company ensures a procedure for taking significant corporate actions that enables shareholders to obtain full information on such actions in a timely manner, provides them with an opportunity to influence such actions, and guarantees observation and adequate protection of their rights when such actions are taken.			
7.2.1	Information on significant corporate actions includes the reasons, the conditions, and the results of such actions.	<ol style="list-style-type: none"> <li>During the reporting period, the Company promptly disclosed detailed information on its significant corporate actions, including the grounds and terms thereof.</li> </ol>	<p><b>V observed</b></p> <p>partially observed</p> <p>not observed</p>	

No.	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations for deviations from the criteria for assessing compliance with corporate governance principles
7.2.2	Rules and procedures related to significant corporate actions taken by the Company are defined in its internal documents.	1. The internal documents of the Company stipulate the procedure for engagement of an independent appraiser to determine the value of property alienated or acquired under a major transaction or a related party transaction.	observed  partially observed  <b>V not observed</b>	<p>Note to para 1 of assessment criteria The internal documents of the Company do not stipulate the procedure for engagement of an independent appraiser to determine the value of property alienated or acquired under a major transaction or a related party transaction.</p> <p><b>V not observed</b> In all cases of property disposal or purchase under above said transactions in the reporting and previous years, the issuer engaged an independent appraiser. The issuer fully complies with the laws relating to evaluation of property being disposed or acquired by transactions.</p> <p>The issuer recognises its responsibility to the shareholders for funds expenditure and purchase/disposal of the Company's property, including the above said transactions, and strictly observes the shareholders' interests. The omission of the requirements specified by this paragraph in the internal documents cannot affect the observance of the law by the issuer.</p> <p>Note to para 2 of assessment criteria</p> <p>The internal documents of the Company stipulate the procedure for engagement of an independent appraiser to determine the value of share purchase and repurchase.</p> <p>The obligation of Joint-Stock Companies on engagement of an independent appraiser to determine the value of share purchase and repurchase are stipulated by the Russian Federation legislation. In all such matters the issuer follows the legislation in force. The omission of the requirements specified by this paragraph in the internal documents cannot affect the observance of the law by the issuer.</p> <p>Note to para 3 of assessment criteria</p> <p>The Company's internal documents do not stipulate an extended list of grounds for deeming the members of its Board of Directors and other persons specified by the law to be parties related to the Company's transactions.</p> <p>Any actions being planned by the Company are evaluated to find any conflict of interest. The members of the Board of Directors shall refrain from actions, which lead or can lead to a conflict of interest, and inform the Board of Directors on such conflict occurring. The issuer considers that it is not required to extend the list of grounds for deeming the members of its Board of Directors and other persons specified by the law to be parties related to the Company's transactions. Number of transactions being conducted by the Company and the transactions control by the issuer's governing bodies do not provoke any situations when private interests of the members of the Board of Directors or other parties mentioned by the law can compete with the issuer's interests.</p>

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