

# STATEMENT by the CEO

**Ilya Kalenkov**  
CEO  
Evropeyskaya Elektrotehnica



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 forth 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.