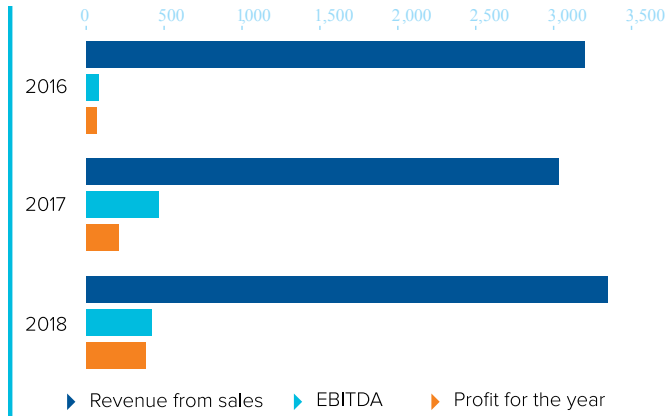


## DRIVERS OF KEY FINANCIAL INDICATORS OF THE COMPANY

### Consolidated revenue

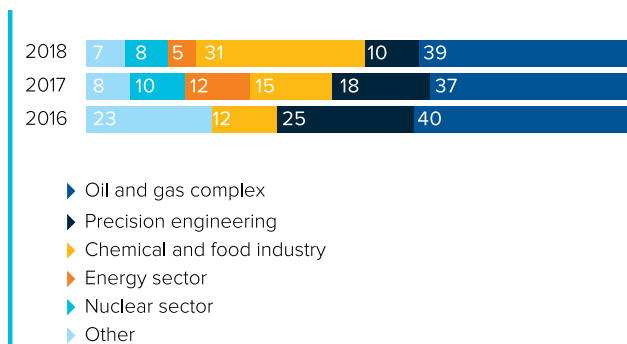
The consolidated revenue of the Company amounted to RUB 3,286.7 mln, up 26.6% year-on-year. Nine percent of revenue was made up by revenues from exports (–2 p.p. year-on-year).



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

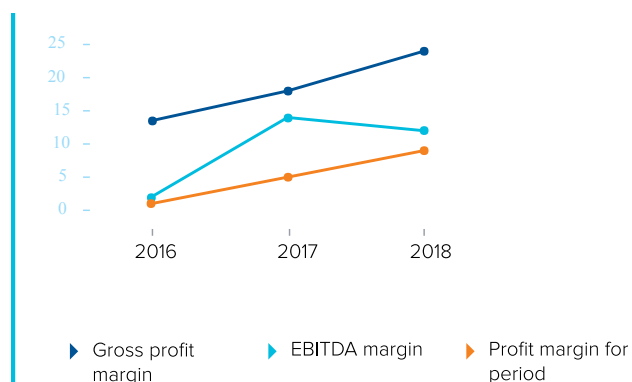
Based on the results of the Group's activities in 2017, the Company paid dividends in the amount of RUB 91.9 mln. This is 12.3 times above the dividend payments made a year earlier.

## 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 Elektrotehnika.

## 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 Elektrotehnica had no debt owned to external creditors not affiliated with Evropeyskaya Elektrotehnica'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. Once 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 Elektrotehnica 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.