

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 Elektrotekhnica.