

## 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.

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.