

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 fulfill 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.

