

STATEMENT

by the Chairman of the Board of Directors

Sergey Dubenok
Chairman of Evropeyskaya Elektrotehnica's Board
of Directors



THE COMPANY'S POSITIVE DYNAMICS IN 2018

Evropeyskaya Elektrotehnica manages to scale up the business while improving the profitability of the operations. Profit margin for the reporting year increased to 8.9% (5.2% year-on-year), with the return on equity (ROE) reaching 47.4% (35.7% in 2017).

The Company is still demonstrating strong financial performance without borrowing from lenders outside Evropeyskaya Elektrotehnica's Group of companies.

In October 2018, the Company for the first time received a credit rating from the Russian Analytical Credit Rating Agency (ACRA). In February 2019, ACRA upgraded the Company's rating to investment level **"BBB-"** (RU) with a "stable" outlook.

The results of the reporting year reflected our ability to monetize market opportunities arising in the context of continuing investment development in Russia and neighboring countries, upgrade and construction of new infrastructure facilities against the backdrop of import substitution, digitalization, and large-scale investment programs in a range of industries. We are closely following the concretization of new sources of large-scale demand for engineering and process equipment at the domestic level, promptly responding to newly emerging business opportunities.

Among the most significant internal development factors, I would like to emphasise our focus on the most commercially attractive business opportunities, progress in R&D program in all key directions, successful launch of LLC ROG-Engineering subsidiary in last year to produce equipment for oil, gas, and petrochemical industries. We continue to expand our export deliveries of engineering and process equipment and auxiliary services to the Central Asian, Middle Eastern, North African, Persian Gulf, Central and Southeast Asian countries. Another important factor is a disciplined financial policy of the Company, which provides independence of our business strategy and financial stability even at rapid fluctuations of business environment.

Profitable activities of the Company in the reporting year, generation of a free cash flow to equity (FCFE) in amount of RUB 491 mln; readiness to adhere to the Dividend Policy Principles accepted in 2017 are the basis for future dividend payments for the Company's shareholders. The amount of dividend payments shall be defined at the General Meeting of Shareholders on the results of 2018, which will take place in June 2019, considering the recommendations of the Board of Directors.

ACTIVE IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM

In the beginning of year 2018 the Board of Directors launched a complex roadmap to improve corporate governance practices within the Company. The Board of Directors triggered development of a number of internal documents regulating the Company's bodies activities and defining the policy for different spheres of corporate government.

The members of the Board of Directors' were actively involved in the process. Within the reporting year, nine meetings of the Board were held with 53 issues elaborated.

To protect and exercise the minority shareholders' rights, two independent members were selected to the Company's Board of Directors, which are the specialists with a huge experience and contacts in Russian and foreign financial sector.

The Committees of the Board of Directors are in place with the independent directors playing the core role:

- ▶ the Nomination (HR) Committee;
- ▶ the Remuneration Committee;
- ▶ the Audit Committee.

A number of key internal documents were accepted or updated, i.e. the revised Charter and the revised Company's Regulations on the Board of Directors. New Regulations on the General Meeting of Shareholders, Risk Management and Internal Control Policy, Regulations on the Information Policy were developed and approved.

Amid the expansion of activities coverage, new departments have been established in the Company - i.e. the Internal Control and Risk Management Service, the Internal Audit Department - aimed to monitor, check and predict all risks linked with our business.

For more details, see Section "The Board of Directors' Report on the Results of Work 2018".

The Company gradually increases its forces to develop the corporate government system with rates appropriate to its activities scale and diversity growth and considering all the parties concerned.