# APPENDIX

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ФБК
Грант Торнтон

# Independent Auditor's Report

For the shareholders of Public Joint-Stock Company Evropeyskaya Elektrotekhnica

## Opinion

We have audited the accompanying Annual Consolidated Financial Statements of Public Joint-Stock Company Evropeyskaya Elektrotekhnica (PJSC Evropeyskaya Elektrotekhnica) and its subsidiaries (the Group), which comprise the consolidated financial statement as at 31 December 2018 and the consolidated statements of income, loss, comprehensive incomes, changes in equity, and cash flows in 2018, as well as the notes to the Annual Consolidated Financial Statements composed of a summary of significant accounting policies and other explanatory information (hereinafter - the Annual Consolidated Financial Statements).

In our opinion, the accompanying Annual Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, as well as its consolidated financial performance and consolidated cash flows for the year 2018, in accordance with International Financial Reporting Standards (IFRSs).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organisations and The Code of Professional Ethics of the Auditors, which comply with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Important Circumstances

We draw attention to explanatory note 3.2 of the Annual Consolidated Financial Statements describing the procedure of comparative information presentation in the Annual Consolidated Financial Statements. We do not modify our opinion in the context of these circumstances.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Annual Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Annual Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Recognition of revenues from sales – explanatory note 8 of the Annual Consolidated Financial Statements**

We consider this matter to be significant for our audit due to increase of sales revenue in 2018.

We have checked completeness and accuracy of revenues from sales by studying the Group's contract obligations and the goods purchase/sale documents; analysed the mechanisms of debt repayment by goods buyers; reviewed correlation between the revenues and the goods cost of sales; evaluated the purchase/sale transactions before and after the reporting date.

Also we have evaluated sufficiency of the Group disclosures relating to amount and types of revenues from sales.

Basing on the procedures implemented, we have concluded that the Group's Annual Consolidated Financial Statements disclose the revenue information in an appropriate way.

ФБК
Грант Торнтон

## Other Information

The management is responsible for the other information. The other information includes the information given in the PJSC Evropeyskaya Elektrotekhnica Annual Report 2018 and in the Issuer's Quarterly Report Q2 2019, and excludes the Group's Annual Consolidated Financial Statements 2018 and the Auditor's Report on the Statements. The PJSC Evropeyskaya Elektrotekhnica Annual Report 2018 and the Issuer's Quarterly Report are supposed to be submitted to us after the date of the present Auditor's Report issue.

Our opinion on the Annual Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Annual Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Should we conclude that there is a material misstatement of this other information in the PJSC Evropeyskaya Elektrotekhnica Annual Report 2018 or in the Issuer's Quarterly Report Q2 2019, we are required to report that fact to those charged with corporate governance.

## Responsibilities of Management and Those Charged with Corporate Governance of the Entity under Audit and the Annual Consolidated Financial Statements

The management is responsible for preparation and fair presentation of the present Annual Consolidated Financial Statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of Annual Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Annual Consolidated Financial Statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with corporate governance are responsible for overseeing the annual consolidated financial reporting process.

## Auditor's Responsibilities for the Audit of the Annual Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Annual Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Annual Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the Annual Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the entity under audit;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the entity under audit;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the entity under audit to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Annual Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity under audit to cease to continue as a going concern.

e) evaluate the overall presentation, structure and content of the Annual Consolidated Financial Statements, including the disclosures, and whether the Annual Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Annual Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the persons charged with corporate governance of the entity under audit regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the persons charged with corporate governance of the entity under audit with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the persons charged with corporate governance of the entity under audit, we determine those matters that were of most significance in the audit of the Annual Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

| | |
|---|---|
| Executive Director of FBK, LLC | I.O. Livkin<br>on the basis of the power of attorney No. 13/19 dated January 09, 2019,<br>Auditor's Qualification Certificate<br>No. 06-000361, ORNZ 2166020201 |
| Engagement partner | V.A. Bakaev<br>Auditor's Qualification Certificate<br>No. 01-001031,<br>ORNZ 21606047616 |

Date of the Independent Auditor's Report:
30 April 2019

ФБК Грант Торнтон

## Entity under audit

**Name:**

Public Joint-Stock Company Evropeyskaya Elektrotekhnica (PJSC Evropeyskaya Elektrotekhnica).

**Address:**

1 Lyotchika Babushkina street, Building 3, ground 3, premise 9, office 23, Moscow, 129344.

**Official registration:**

State registration certificate series 77 No. 017678656 issued by Moscow Interdistrict Inspectorate No. 46 of the Russian Federal Tax Service on January 12, 2016. The registration entry was made in the Unified State Register of Legal Entities on January 12, 2016 under primary state registration number 1167746062703

## Auditor

**Name:**

Limited Liability Company Accountants and Business Advisors (FBK, LLC)

**Address:**

44/1, 2AB, Myasnitskaya St., Moscow, 101990.

**Official registration:**

State registration certificate series YuZ 3 No. 484.583 RP issued by Moscow Registration Chamber on November 15, 1993. The registration entry was made in the Unified State Register of Legal Entities on July 24, 2002 under primary state registration number (OGRN) 1027700058286

**Membership in self-regulatory organization of auditors:**

Self-Regulatory Organisation of Auditors Association "Sodruzhestvo"

**Number in the register of Self-Regulating Auditors' Organisation:**

Certificate of membership in the Self-Regulatory Organisation of Auditors Association "Sodruzhestvo No. 7198, number in the register – 11506030481

# FINANCIAL
## reporting

**Consolidated Statement of Profit or Loss and other Comprehensive Income (RUB ’000)**

| | Note | | For the year ended |
|---|---|---|---|
| | | 31 December 2018 | 31 December 2017 |
| Revenue from sales | 8 | 3,286,684 | 2,595,265 |
| Cost of sales | | (2,490,347) | (2,127,358) |
| Gross profit | | 796,337 | 467,907 |
| Administrative and selling expenses | 9 | (422,129) | (268,405) |
| Other income (expenses) | 10 | (3,743) | 107,355 |
| Operating profit | | 370,465 | 306,857 |
| Finance income | 11 | 11 774 | 33,599 |
| Finance expenses | 11 | (23,230) | (170,463) |
| Income before income tax | | 359,009 | 169,993 |
| Profit tax | 12 | (65,911) | (35,260) |
| Profit for the year | | 293,098 | 134,733 |
| Other comprehensive income, net of profit tax | | – | (39,386) |
| Total comprehensive income for the period | | 293,098 | 95 347 |
| Total comprehensive income attributable to: | | | |
| - the Group’s shareholders | | 295,621 | 95 347 |
| - Non-controlling interest | | (2,524) | – |
| Earnings per share: | | | |
| basic (in roubles per share) | | 0.55 | 0.27 |
| diluted (in roubles per share) | | 0.55 | 0.27 |

### Consolidated Statement of Financial Position (RUB ’000)

| Assets | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 13 | 109,863 | 108,458 |
| Long-term financial assets | 14 | 4,724 | 1,256 |
| Deferred tax assets | 12 | 2,983 | 933 |
| Total non-current assets | | 117,570 | 110,647 |
| **Current assets** | | | |
| Inventories | 15 | 270,346 | 100,390 |
| Accounts receivable and prepayments | 16 | 653,120 | 721,008 |
| Short-term financial assets | 14 | 2,555 | 12 554 |
| Other current assets | | 838 | 520 |
| Cash and cash equivalents | 17 | 246,758 | 209,782 |
| **Total current assets** | | **1,173,617** | **1,044,254** |
| **Total assets** | | **1 291 187** | **1 154 901** |
| **Liabilities and equity** | | | |
| **Capital** | | | |
| Share Capital | 18 | 610,000 | 610,000 |
| Additional paid-in capital | 18 | 127,194 | 129,468 |
| Treasury shares | 18 | (508,490) | (589,006) |
| Business combination reserve | 18 | – | 141,440 |
| Revaluation reserve | | 69,833 | 69,833 |
| Retained earnings | | 384,251 | 179,793 |
| Non-controlling interest | | 11,843 | |
| **Total equity** | | **694,631** | **541,528** |
| **Non-current liabilities** | | | |
| Long-term loans and borrowings | 19 | 41,007 | 38,165 |
| Long-term finance leases payable | 21 | 50,291 | 50,640 |
| Other non-current liabilities | | – | – |
| Deferred tax liabilities | 12 | 47,071 | 46,110 |
| **Total non-current liabilities** | | **138,369** | **134,915** |
| **Current liabilities** | | | |
| Short-term loans and borrowings | 19 | 2,016 | 373 |
| Accounts payable and estimated liabilities | 20 | 455,822 | 441,933 |
| Short-term finance leases payable | 21 | 349 | 278 |
| Net assets owned by participants | | – | 35,874 |
| **Total current liabilities** | | **458,187** | **478,458** |
| **Total equity and liabilities** | | **1 291 187** | **1 154 901** |

## Consolidated Statement of Cash Flows (RUB ’000)

| | Note | For the year ended | |
|---|---|---|---|
| | | **31 December 2018** | **31 December 2017** |
| **Cash generated from operations:** | | | |
| **Profit (loss) before tax** | | **359,009** | **169,993** |
| Adjustments to reconcile net profit to operating profit: | | | |
| Depreciation of fixed and intangible assets | 13 | 11,814 | 15,047 |
| Loss on disposal of non-current assets | | (381) | 856 |
| Other operating (income) / expenses | | – | (510) |
| Finance income / expenses | 11 | 7,059 | 139,626 |
| Foreign exchange differences | | (3,738) | (3,135) |
| Loss (gain on loss reversal) on impairment of accounts receivable and loans issued | 16, 20 | (6,617) | 16,564 |
| Acquisition of subsidiaries | | (84,112) | – |
| **Cash flows from operating activities before profit tax and changes in working capital and in other assets and liabilities** | | **283,034** | **338,441** |
| **Changes in working capital** | | | |
| Decrease / (increase) in trade and other receivables | | 82 391 | 99,872 |
| Decrease / (increase) in inventories | | (169,956) | (4,704) |
| Increase / (decrease) in trade and other payables and estimated liabilities | | 27,337 | (307,736) |
| Increase / (decrease) in net assets owned by participants | | (84,361) | – |
| Interest paid | | – | – |
| Profit tax paid | | (82,579) | (30,380) |
| Total cash used for operating activities | | 55,866 | 95 493 |
| Investing cash flow | | | |
| Acquisition of fixed and intangible assets | | (9,748) | (3,943) |
| Proceeds from sales of fixed assets | | 381 | 1,542 |
| Loans issued | | – | (180,641) |
| Repayment of loans issued | | 3,011 | 46,633 |
| Acquisition of a subsidiary | | (36,000) | (136,000) |
| Interest received | | 4,199 | 17,798 |
| Total investing cash flow | | (38,157) | (254,611) |
| **Financing activities** | | | |
| Finance lease payments | | (11,947) | (14,451) |
| Proceeds from sales of shares | | 129,000 | 169,307 |
| Dividends and similar payments to participants | | (101,765) | (21,664) |
| **Net cash from financing activities** | | **15 288** | **133,192** |
| **Change in cash and cash equivalents** | | **32 997** | **(25,926)** |
| **Cash and cash equivalents at the beginning of the period** | | **209,782** | **234,951** |
| Effect of changes in foreign exchange rates on balances of cash and cash equivalents | | 3,979 | 757 |
| **Cash and cash equivalents at the end of the period** | | **246,758** | **209,782** |

### Consolidated Statement of Changes in Stockholders' Equity (RUB ’000)

| | Share Capital | Additional paid-in capital | Business combination reserve | Treasury shares | Other provisions | Retained earnings | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2017** | **610,000** | **–** | **(596,858)** | **–** | **109,219** | **91,967** | **–** | **214,328** |
| Net profit of the current period | – | – | – | – | – | 134,733 | – | 134,733 |
| Revaluation reserve | – | – | – | – | (39,386) | – | – | (39,386) |
| Treasury shares | – | – | – | (589,006) | – | – | – | (589,006) |
| Dividends and similar payments to participants | – | – | – | – | – | (21,664) | – | (21,664) |
| Additional paid-in capital | – | 129,468 | – | – | – | – | – | 129,468 |
| Acquisition of entities under common shareholders’ control | – | – | 738,298 | – | – | (22,980) | – | 715,318 |
| Transfer of net assets of entities under common shareholders’ control to Liabilities | – | – | – | – | – | (2,263) | – | (2,263) |
| **As at 31 December 2017** | **610,000** | **129,468** | **141,440** | **(589,006)** | **69,832** | **179,793** | **–** | **541,528** |
| | Share Capital | Additional paid-in capital | Business combination reserve | Treasury shares | Other provisions | Retained earnings | Non-controlling interest | Total |
| **As at 1 January 2018** | **610,000** | **129,468** | **141,440** | **(589,006)** | **69,832** | **179,793** | **–** | **541,528** |
| Net profit of the current period | – | – | – | – | – | 295,621 | (2,524) | 293,097 |
| Revaluation reserve | – | – | – | – | – | – | – | – |
| Treasury shares | – | – | – | 80,516 | | 171 | – | 80,687 |
| Dividends and similar payments to participants | – | – | – | – | – | (101,765) | – | (101,765) |
| Additional paid-in capital | – | (2,274) | – | – | – | – | – | (2,274) |
| Acquisition of subsidiaries | – | – | (141,440) | – | – | 15,416 | 14,367 | (111,657) |
| Transfer of net assets of entities | – | – | – | – | – | (4,985) | – | (4,985) |
| **As at 31 December 2018** | **610,000** | **127,194** | **–** | **(508,490)** | **69,832** | **384,251** | **11,843** | **694,631** |

# NOTES
## to the Consolidated Financial Statements for 2018 (RUB ’000)

### GENERAL INFORMATION ON PJSC EVROPEYSKAYA ELEKTROTEKHNICA AND ITS SUBSIDIARIES

PJSC Evropeyskaya Elektrotekhnica (the Company) together with its subsidiaries (referred to as the Group) is an engineering and manufacturing company, which operates in the Russian Federation and in CIS and foreign countries. The main areas of the Group’s activities include manufacture and installation of transformer substations and low-voltage complete devices, manufacture of electric heating systems, delivery of electric materials and equipment for electricity and power supply systems, and execution of design, installation and commissioning activities. the Company is engaged in production and installation of packaged oil and gas equipment.

The Company was established in 2004 and registered on the territory of the Russian Federation.

In 2015, the Group’s management initiated a legal restructuring process, according to which the ownership of interests in charter capitals of entities controlled by Ilya Kalenkov and Sergey Dubenok was transferred to the parent company of the Group - JSC Evropeyskaya Elektrotekhnica (hereinafter - the Company) created in accordance with the decision of the sole participant dated 22 December 2015.

On 9 March 2016, the private company was converted into a public company by the decision of the sole shareholder. As a result, the Company was renamed into PJSC Evropeyskaya Elektrotekhnica.

As at 31 December 2018 and 31 December 2017, the ultimate controlling parties of the Group are Ilya Kalcnkov and Sergey Dubenok.

The functions of Evropeyskaya Elektrotekhnica’s sole executive body are performed by Ilya Kalenkov, Chief Executive Officer.

The Company’s office address is: 1 Lyotchika Babushkina Ul., Building 3, Moscow, 129344.

**As at 31 December 2018, the Group comprises the following subsidiaries:**

| Group's entity | Share of the capital, % | | | Address | Key activities |
|---|---|---|---|---|---|
| | **PJSC Evropeyskaya Elektrotekhnica** | | | | |
| LLC EC Evropeyskaya Elektrotekhnica | 100 | | | 14 Dorogobuzhskaya Ul., Building 1, Room 103, Moscow, Russia, 121354 | Wholesale trade of non-food products (OKVED 46.4) |
| LLC Evropeyskaya Elektrotekhnica - North-West | 100 | | | 30 Staro-Petergofsky Pr., Building. 1, Lit. A, Room 18H, St. Petersburg, Russia, 190020 | Wholesale trade of other building materials and products (OKVED 46.73.6) |
| | **LLC Evropeyskaya Elektrotekhnica - North-West** | **Ilya Kalenkov** | **Sergey Dubenok** | | |
| LLC Evropeyskaya Elektrotekhnica | 99 | 0.5 | 0.5 | 22 Kashirskoye Sh., Room 4, Building 3, Moscow, 115201 | Wholesale trade of other household goods (OKVED 46.49) |
| | **LLC EC Evropeyskaya Elektrotekhnica** | **Habir Kilmukhametov** | | | |
| LLC ROG-Engineering | 95 | 5 | | 23 Khadiya Davletshina B-r, Office 3, Ufa, Republic of Bashkortostan, Russia , 450097 | Manufacture of machinery and equipment for mining and construction (OKVED 28.92) |

**As at 31 December 2017, the Group comprises the following subsidiaries and entities under common control.**

| Group's entity | Share of the capital, % | | | Address | Key activities |
|---|---|---|---|---|---|
| | **PJSC Evropeyskaya Elektrotekhnica** | **Ilya Kalenkov** | **Sergey Dubenok** | | |
| LLC EC Evropeyskaya Elektrotekhnica | 100 | – | – | 17 Marshala Timoshenko Ul., Office 9, Building 2, Moscow, Russia, 121359 | Wholesale trade of non-food products (OKVED 46.4) |
| LLC Evropeyskaya Elektrotekhnica - North-West | – | 50 | 50 | 47A Stachck Pr., Saint Petersburg, Russia, 198097 | Wholesale trade of other building materials and products (OKVED 46.73.6) |
| | **LLC Evropeyskaya Elektrotekhnica - North-West** | **Ilya Kalenkov** | **Sergey Dubenok** | | |
| LLC Evropeyskaya Elektrotekhnica | 99 | 0.5 | 0.5 | 22 Kashirskoye Sh., Room 4, Building 3, Moscow, 115201 | Wholesale trade of other household goods (OKVED 46.49) |

LLC EC Evropeyskaya Elektrotekhnica was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 46 in Moscow on 5 May 2008 under principal state registration number 1087746603340, state registration certificate series 77 No. 010745956.

Grounds for recognising the company as a subsidiary: the share of PJSC Evropeyskaya Elektrotekhnica in the charter capital is 100%.

LLC Evropeyskaya Elektrotekhnica - North-West was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 15 in Saint Petersburg on 6 September 2005 under principal state registration number 1057812310269, state registration certificate series 78 No. 005598835.

Grounds for recognising the company as a subsidiary: the share of PJSC Evropeyskaya Elektrotekhnica in the charter capital is 100%.

LLC Evropeyskaya Elektrotekhnica was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 46 in Moscow on 14 August 2014 under principal state registration number 1147746927790, state registration certificate series 77 No. 017324559.

Grounds for recognising the company as a subsidiary: the share in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West, which is a subsidiary of PJSC Evropeyskaya Elektrotekhnica, is 99%.

LLC ROG-Engineering was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service No. 39 for the Republic of Bashkortostan on 13 August 2013 under principal state registration number 1130280048051, state registration certificate series 02 No. 007131020.

Grounds for recognising the company as a subsidiary: the share in the charter capital of LLC EC Evropeyskaya Elektrotekhnica, which is a subsidiary of PJSC Evropeyskaya Elektrotekhnica, is 95%.

The consolidated financial statements of the Group are based on the principles set out in Section 4.2.

## ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian economy shows the features inherent in emerging markets. Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, developments in Ukraine, the current situation with sanctions, uncertainty and volatility of stock and commodity markets and other risks have had and may continue to have effects on the Russian economy.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic conditions. The future economic situation and regulatory environment and its impact on the Group's operations may differ from management's current expectations.

## BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

### Confirmation of compliance

The consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards, including all the International Financial Reporting Standards and Interpretations issued by the Council for International Financial Reporting Standards adopted and effective in the reporting period, and should be read in conjunction with the annual combined financial statements of the Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017.

PJSC Evropeyskaya Elektrotekhnica and its subsidiaries keep accounting records and prepare financial statements in accordance with the requirements of the legislation of the Russian Federation. These consolidated financial statements have been prepared on the basis of the accounting reports, subject to adjustments and reclassifications of the items that are necessary to bring them into line with IFRS. The accounting policies used in preparing these consolidated financial statements are presented below.

Management used a going concern basis to prepare these consolidated financial statements. See Note 46 "The effect of estimates and assumptions on recognised assets and liabilities".

### Transition from combined to consolidated reporting

At the end of 2017, the controlling parties of the Group, PJSC Evropeyskaya Elektrotekhnica, are Ilya Kalcnkov and Sergey Dubenok. Based on the results of operations in 2017, the Group issued Combined Financial Statements, including financial indicators and cash flows of companies: PJSC Evropeyskaya Elektrotekhnica; LLC Evropeyskaya Elektrotekhnica - North-West; LLC EC Evropeyskaya Elektrotekhnica; LLC Evropeyskaya Elektrotekhnica, as if these companies were one group under the control of PJSC Evropeyskaya Elektrotekhnica.

As of 31 December 2018, LLC Evropeyskaya Elektrotekhnica - North-West acquired a 100% stake in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West and a 95% stake in the charter capital of LLC ROG-Engineering. Thus, as of 30 September 2018, PJSC Evropeyskaya Elektrotekhnica is the parent organisation of the Group of Companies, which includes:

- LLC EC Evropeyskaya Elektrotekhnica;
- LLC Evropeyskaya Elektrotekhnica - North-West;
- LLC Evropeyskaya Elektrotekhnica;
- LLC ROG-Engineering.

Starting from 2018, the Group prepares consolidated financial statements in accordance with the requirements of IFRS 10 Consolidated Financial Statements.

The accounting policies and calculation methods used in preparing these consolidated financial statements are consistent with the accounting policies and methods used and described in the Group's annual combined financial statements, except for adjustments made in accordance with IFRS 10 Consolidated Financial Statements to these financial statements and changes arising out of new and revised standards. The key accounting policies applied by the Group since 1 January 2018 are described in Note 4.

In these consolidated financial statements, the Group's capital is presented in accordance with IFRS 10 Consolidated Financial Statements.

Comparative data for the previous period are presented in accordance with the combined financial statements of the Group for 2017 and as of 31 December 2017.

## Basis for assessment

The consolidated financial statements have been based on historical cost, except for certain property and financial instruments recognised as described in the accounting policies below. Historical cost is usually estimated on the basis of the fair value of the consideration received in exchange for assets.

Fair value is determined as a sum that would be received for an asset sold or paid for a liability transferred in an orderly transaction between market participants at the measurement date independent of the immediate observability of this price or its estimation according to other valuation technique. When estimating the fair value of an asset or a liability, the Group takes into consideration characteristics of an asset or a liability as if they were taken into consideration by market participants. For the purposes of measurement and / or disclosures in these financial statements, the fair value is determined as described above, excluding share-based payments covered by IFRS 2, leases governed by IAS 17 and estimates that are comparable but not equal to the fair value (for example, net selling price in measuring inventories under IAS 2.

## Functional currency and presentation currency

The functional currency of PJSC Evropeyskaya Elektrotekhnica and its subsidiaries is the currency of the primary economic environment the Company is operating in - the currency of the Russian Federation (Russian rouble). The consolidated financial statements of the Group are stated in thousands of Russian roubles, unless otherwise stated.

For preparing the financial statements, transactions in currencies other than functional currency (i.e. in foreign currency) are recognised at the spot exchange rate valid at the date of transaction. Monetary items denominated in foreign currency are translated using the spot exchange rate at the reporting date. Non-monetary items denominated in foreign currencies and measured at fair value are to be translated at spot exchange rates valid at the date the fair value was measured. Non-monetary items carried at historical cost in a foreign currency are not translated.

Foreign exchange differences on monetary items caused by changes in exchange rates are recognised in profit or loss in the period when they arise.

**Exchange rates of foreign currencies the Group used to make transactions are given below:**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Closing price - [RUB] | | |
| 1 US dollar | 69.4706 | 57.6002 |
| 1 Euro | 79.4605 | 68.8668 |
| 1 pound | 88.2832 | 77.6739 |
| | Weighted average exchange rate (since 01.01.2018 till 31.12.2018) | |
| Average exchange rate in 2018 – [RUB] | | |
| 1 US dollar | 62.9264 | |
| 1 Euro | 74.133 | |
| 1 pound | 83.7802 | |
| | Weighted average exchange rate (since 01.01.2017 till 31.12.2017) | |
| Average exchange rate in 2017 – [RUB] | | |
| 1 US dollar | 58.3529 | |
| 1 Euro | 65.9014 | |
| 1 pound | | |

## Going concern

These consolidated financial statements have been prepared on the going concern basis, according to which the disposal of assets and fulfilment of obligations shall comply with generally accepted procedure. The ability of the Group to sell its assets, as well as its future activities, may largely depend on the current and future economic situation in the Russian Federation. These consolidated financial statements do not contain any adjustments which would be necessary if the Group could not continue as a going concern.

The consolidated financial statements have been prepared on accrual basis according to matching concept under IAS 1.

The consolidated financial statements for 2018 were authorised for issue on 30 April 2019. Subsequent events have been evaluated through 30 April 2019, the date these consolidated financial statements were issued.

# KEY ASPECTS OF THE ACCOUNTING POLICY

The principal accounting policies are set out below. These policies have been consistently applied to all the periods presented in financial statements.

## Consolidated financial reporting principles

The Group prepares consolidated financial statements in accordance with the requirements of IFRS 10 Consolidated Financial Statements. In these financial statements, assets, liabilities, capital, income, expenses, and cash flows of PJSC Evropeyskaya Elektrotekhnica, the parent company of the Group, and its subsidiaries (components of the Group) are presented as assets, liabilities, capital, income, expenses, and cash flows cash of a single economic entity.

The investments of the parent organisation in each subsidiary and the interests of the parent organisation in the charter capital of its subsidiaries were netted against each other.

Transactions between the companies of the Group, balances on corresponding accounts and unrealised gains on transactions between the Group's companies are mutually eliminated. Unrealised expenses are also mutually eliminated, unless the relevant transaction indicates an impairment of the asset being transferred.

The Group applies the unified accounting policies for the preparation of these consolidated financial statements.

## Consolidation

Subsidiaries are companies, in which the Group directly or indirectly owns more than half of the voting shares, or has another opportunity to control their financial and operating operations. Subsidiaries are included in the consolidated financial statements of the Group starting from the date the control over their operations is actually transferred to the Group and are excluded from the statements starting from the date such control is terminated.

The interest of minority shareholders is a part of operating margin or net assets of a subsidiary attributable to the equity interest the Group does not own directly or indirectly.

## Business combination

Business combinations are recorded using the acquisition method.

The date of acquisition is the date when the Company gains working control over an acquiree.

The acquisition cost is measured as the sum of the consideration carried at fair value at the acquisition date and non-controlling interest in the acquiree. For each business combination transaction, the Company decides how to measure the non-controlling interest in the acquiree: either at fair value or at a proportionate share in the identifiable net assets of the acquiree. Acquisition costs incurred are recognised as administrative expenses.

Contingent consideration to be transferred by the acquirer must be recognised at fair value at the date of acquisition. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability if they arose after the period for completing the measurement, are recognised within profit or loss for the period. If the contingent consideration is classified as equity, it should not be re-measured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed by the Company. If the aggregate of the consideration transferred and the amount recognised for non-controlling interests are lower than the fair value of the net identifiable assets acquired and liabilities assumed by the Company, the difference is recognised in profit or loss for the period.

## Associates

Investments in associates that are not classified as assets for sale and were not a part of disposal groups are recognised at their cost of acquisition.

Carrying value of investments in associates is increased or decreased by reported share of the investor in profit or loss of the investee after the acquisition date.

The Company's share of net profit or loss and other comprehensive income of the associate is recognised in the combined statement of profit or loss and other comprehensive income of the Company. The income received from the investee in the form of dividends reduces carrying value of investments.

Adjustments to carrying value may also be necessary to recognise changes of the investor's share in the income of the investee.

The Company's net investments in associates include the carrying value of the investments in these associates, as well as other long-term investments that are virtually investments in associates, such as loans. If the share in losses exceeds the carrying value of the investments in associates and the value of other long-term investments related to investments in these associates, the Company ceases to recognise its share in losses after the carrying value reaches zero. Any additional losses are provided for and liabilities are recognised only to the extent that the Company has legal or constructive obligations or has made payments on behalf of the associate.

If the associate subsequently makes profits, the Company resumes recognising its share in these profits only after its share of the profits equals the share of losses not recognised.

The carrying value of an investment in the associate is tested for the impairment by comparing its recoverable amount (the largest value of value in use and fair value less costs of sale) with its carrying value in all cases the signs of impairment are identified.

## Recognition of revenues

Revenue is recognised at the fair value of the consideration received or receivable. Revenue is reduced by the amount of expected returns of goods, discounts, and other similar deductions.

**Sale of goods**

Revenue from the sale of goods is recognised upon delivery of the goods and transfer of ownership. For revenue to be recognised, the following conditions must be met:

- the Group transferred to the buyer significant risks and benefits associated with to the possession of these goods;
- the Group does not retain neither managerial functions to the extent that is usually associated with the possession of goods, nor effective control over the goods sold;
- the amount of revenue can be reliably measured;
- there is the high probability of obtaining economic benefits related to the transaction;
- incurred or expected costs of transaction can be measured reliably.

In particular, revenue from sale of goods is recognised as goods are delivered and ownership is transferred.

**Services, works, fees**

Revenue from service contracts is recognised on the basis of the degree of completion. The stage of completion of services provided is defined as follows:

- installation fees are recognised by reference to the degree of completion of installation operations, which is defined as the proportion of the total time required to complete the installation that has expired at the reporting date;
- maintenance fees included in the price of the good is recognised by reference to the share of the total maintenance costs of the good sold;
- revenue under hourly rate contracts and compensation of direct costs is recognised at the contract rates as the work progresses and direct costs are incurred.

Revenue must cover the economic benefits received or receivable. The amounts arriving in the Group's account from, or for transfer to, a third party do not result in economic benefits or do not lead to an increase in equity. Therefore they are excluded from revenues, in particular from receipts under agency or consignment agreements. Agent or consignment commissions is the only revenue under such agreements. A commission is recognised when the Group acquires the right to receive (withhold) it under the agreement and all doubts related to its receipt are eliminated.

**Dividends and interest income**

Dividend income is recognised when the shareholder's right to receive the dividend payment is established (if the Group is likely to receive economic benefits and the amount of revenue can be measured reliably).

Interest income on financial assets is recognised if the Group is likely to receive economic benefits and the amount of revenue can be measured reliably. To calculate interest income, the carrying value of a financial asset (net of interest) and the effective interest rate (EIR) are used. The latter is calculated so as to discount expected future cash flows over the expected period until the financial asset is repaid to its net carrying value at the time of recognition.

**Leases**

Leases under which all material risks and benefits arising from ownership are transferred to the lessee are classified as finance leases. All other leases are recognised as operating leases.

**The Group as lessor**

Lease receivables are recognised in accounts receivable in the amount of the Group's net investment in the lease. Revenue from finance lease is distributed over reporting periods in such a way as to ensure constant rate of return on the Group's net investment in the lease. Revenue from the operating lease is recognised on a straight-line basis over the lease term. Initial direct costs related to negotiating the terms of the operating lease and its execution are included in the carrying value of the leased asset and expensed on a straight-line basis over the lease term.

**The Group as lessee**

Assets leased under finance leases are initially recorded at the lower of a) fair value of the leased asset at the beginning of the lease term and b) discounted value of minimum lease payments. Relevant liabilities to the lessor are recognised in the interim consolidated statement of financial position as finance lease liabilities.

The rental amount is distributed between the financial expenses and the reduced leasing commitments in such a way to obtain a constant interest rate on the balance of the commitments. Finance expenses are recorded in profit or loss if they do not directly relate to qualifying assets. In the latter case, they are capitalised in accordance with the general accounting policy of the Group on borrowing costs. The contingent lease payment is expensed as incurred.

Operating lease payments are expensed on a straight-line basis over the lease term, unless a different method of allocating expenses corresponds more precisely to the temporary distribution of economic benefits from leased assets. The contingent lease payments under operating leases are expensed as incurred.

Incentive payments received from operating leases are recognised as a liability. The total amount of such incentives reduces lease expenses on a straight-line basis, unless a different method of allocating expenses corresponds more precisely to the temporary distribution of economic benefits from leased assets.

## Borrowing costs

Borrowing costs directly related to the acquisition, construction or creation of assets that take a considerable time to prepare for their planned use or sale (qualifying assets) are included in the cost of such assets until they are ready for the planned use or sale.

The income resulted from temporary investment of borrowed funds before they are spent for the acquisition of qualifying assets is deducted from borrowing costs.

All other borrowing costs are recorded within profit or loss as incurred.

## Employee benefits and compensation costs

Employee benefits with respect to services rendered during the reporting period, including the accrual of annual leave and bonuses, as well as related payroll taxes, are recognised as expenses in the period when they arise.

Companies within the Group are legally obliged to make defined contributions to the Russian Federation State Pension Fund as consistent with the system of defined contributions to the Pension Fund. The Group's contributions to the State Pension Fund are recorded in the reporting period as expenses related to the services rendered by an employee. The contribution to the Russian Federation State Pension Fund for each employee ranges from 10% to 30%, depending on the total annual remuneration for each employee.

## Profit tax

Profit tax expenses include current and deferred tax.

**Current tax**

The amount of current tax is determined by taxable profits for the year. Taxable profit differs from the profit before tax reported in the statement of profit or loss and other comprehensive income in that it includes part of income and expense in taxable profits of other years and excludes income (expense) that are not subject to any taxation (deduction). The amount of the current income tax is calculated at the rates approved by law at the reporting date.

**Deferred tax**

Deferred tax is recognised on temporary differences between the carrying value of assets and liabilities reflected in the statements and the relevant tax accounting data used in calculating taxable profit. Deferred tax liabilities (DTL) are generally recognised for all taxable temporary differences.

Deferred tax assets (DTA) are recognised for all deductible temporary differences, provided there is a high probability of future taxable profit being sufficient to use these temporary differences. DTA/DTL are not recognised in the statements if temporary differences arise due to the initial recognition of other assets and liabilities in transactions (other than business combinations) that affect neither taxable nor accounting profit. In addition, DTL are not recognised in the statements if temporary differences arise from the recognition of goodwill.

DTL are recognised for taxable temporary differences attributable to subsidiaries and entities under common control, as well as joint ventures, unless the Group is unable to control the timing of temporary difference reversal, or it is highly probable that the temporary differences will be reversed in the foreseeable future. DTA for subsidiaries and entities under common control and joint ventures are recognised when there is a high probability of obtaining future taxable profits sufficient for the use of deductible temporary differences and are expected to be used in the foreseeable future..

DTA/DTL are calculated at tax rates (as well as provisions of tax legislation) approved or almost approved by legislation at the reporting date, which are expected to be valid during the period of DTA/DTL implementation. The DTA/DTL measurement reflects the tax consequences of the Group's intention to recover or settle the carrying value of assets and liabilities at the reporting date.

For the calculation of DTA/DTL on investment property measured at fair value, it is presumed by default that the carrying value of the investment property will be recovered through sale. This presumption can be refuted for depreciable investment property held within the framework of a business model that provides for the reimbursement of carrying value by using investment property in ordinary activities, rather than through sale. The Management believes that such a business model is not applicable to the objects of the Group's investment property, and therefore, the presumption established by the amendments to IAS 12 cannot be refuted. Therefore, the Group did not recognise DTA/DTL for changes in the fair value of investment property, as these changes are not subject to profit tax.

**Current and deferred tax for the year**

Current and deferred taxes are recognised in profit or loss, unless they relate to transactions recorded in other comprehensive income or equity. In this case, current and deferred taxes are also recognised in other comprehensive income or in equity. Current and deferred taxes arising from business combinations are accounted for when these transactions are reported.

## Fixed assets

Fixed assets, except for office and warehouse warehousing property, are carried at acquisition cost less of accumulated depreciation and accumulated impairment losses.

Office and warehousing property is carried at revalued cost, which is its fair value at the date of revaluation less of subsequent accumulated depreciation and subsequent accumulated impairment losses. The frequency of revaluations shall be sufficient to prevent a significant difference between the carrying value and that which would have been determined using fair value at the end of the reporting period.

Depreciation is charged to write off the actual cost of fixed assets (excluding land and construction in progress), less the salvage value, evenly over the expected useful life. The expected useful live, carrying value, and depreciation method are analysed at each reporting date. Moreover, all changes in estimates are reported prospectively.

**The following useful lives are used in calculating depreciation.**

| | |
|---|---|
| Office and warehousing property | 25-50 years |
| Vehicles | 3-5 years |
| Machinery and equipment | 5-7 years |
| Inventory and other | 3-5 years |

Assets received under finance leases are depreciated over the expected useful life in the same way as the assets owned by the Group. However, in the absence of reasonable certainty that the ownership will be transferred to the lessee at the end of the lease term, the asset must be fully depreciated over the shorter of the lease term and the useful life.

A fixed asset is written off when it is sold or when no future economic benefits are expected from its further use. The financial performance of the sale or other disposal of fixed assets is determined as the difference between the selling price and the carrying value of fixed assets and is recognised in the combined statement of profit or loss.

## Impairment of assets

The Group checks for indicators of impairment of the carrying value of assets at each reporting date. If any such indication exists, the recoverable amount of the asset is calculated to determine the impairment loss. If it is not possible to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) the asset belongs to. The value of the Group's assets is distributed to individual CGUs or the smallest CGU groups, for which a reasonable and consistent method of distribution can be found.

The recoverable amount is determined as the higher of the asset's fair value less costs to sell and value in use. In determining value in use, the expected future cash flows are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimated future cash flows have not been adjusted.

If the recoverable amount of the asset (CGU) is below the carrying value, the carrying value of the asset (CGU) is reduced to the recoverable amount. Impairment losses are immediately carried through profit and loss, unless the asset is regularly revaluated. In this case, the impairment loss is treated as a revaluation decrease.

## Inventories

Inventories are carried at the lower of the actual cost of acquisition and net realisable value. The cost of acquisition of inventories is determined using the weighted average method. The net realisable value is the estimated selling price of inventories less all expected costs of improvement and selling expenses.`

The Management estimates the amount of provision for impairment of inventories based on its storage life. For inventories that are stored for more than 5 years, 100% of provision is accrued; more than 4 years - 75% of provision is accrued; more than 3 years - 50%; more than 2.5 years - 25%. The provision is not accrued for inventories with a storage period of less than 2.5 years.

## Formation of estimated liabilities

Estimated liabilities are recognised when the Group has obligations (legal or constructive) as a result of past events, and it is probable that the Group will have to settle these obligations and their amount can be measured reliably.

Estimated liability is recognised in the Group's best estimate of the amount necessary for its settlement at the reporting date, taking into account the risks and uncertainties specific to these liabilities.

If the liability is calculated from the expected cash flows for its settlement, the cash flows are discounted (if the effect of discounting is material).

If it is expected that repayment of liabilities will be partially or fully reimbursed by a third party, the corresponding receivables are recorded as an asset only with full confidence that the reimbursement will be received, and it is possible to measure it reliably.

## Financial instruments

Financial assets (FA) and financial liabilities (FL) are recognised when an entity of the Group becomes a party to a contractual relationship for the relevant financial instrument.

**Recognition and classification of financial assets**

From 1 January 2018, upon initial recognition, the Group classifies financial assets into three measurement categories: subsequently measured at amortised cost, subsequently measured at fair value, changes of which are carried through other comprehensive income, and subsequently measured at fair value, changes of which are carried through profit or loss.

A financial asset is measured at amortised cost if it simultaneously meets the following two conditions and is not classified as measured at fair value through profit or loss:

- an asset is held within a business model, the purpose of which is to hold assets to receive cash flows under contracts;
- the contractual terms of the financial asset are adjusted on the dates indicated to cash flows, which are solely payments of principal and interest.

There have been no changes in the classification of financial assets previously also carried at amortised cost.

A financial asset is measured at fair value through other comprehensive income only if it meets the following two conditions and is not classified as measured at fair value through profit or loss:

- an asset is held within a business model, the purpose of which is to hold assets to receive cash flows under contracts and to sell the financial asset;
- the contractual terms of the financial asset are adjusted on the dates indicated to cash flows, which are solely payments of principal and interest.

Gains and losses relating to this category of financial assets are recognised in other comprehensive income, except for gains or losses on impairment, interest income, and foreign exchange differences, which are carried through profit or loss. When a financial asset is disposed of, accumulated gains or losses previously carried at other comprehensive income are reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and is included in finance income.

The Group does conduct no transactions involving this category of financial assets.

Financial assets subsequently measured at fair value, changes in which are recorded through profit or loss. Financial assets that do not qualify for the recognition as financial assets carried at amortised cost or carried at fair value through other comprehensive income are measured at fair value through profit or loss. These financial assets of the Group mainly include financial instruments for trading, as well as certain equity instruments, for which the Group has not decided to reflect changes in their fair value in other comprehensive income at fair value, changes of which are reflected through other comprehensive income.

The Group does conduct no transactions involving this category of financial assets.

Reclassifications of financial assets. Financial assets are not reclassified after their initial recognition, except for the period after the change in the business model for managing financial assets.

**Impairment of financial assets**

The Group applies the “expected credit loss” model to financial assets measured at amortised cost or at fair value through other comprehensive income, excluding investments in equity instruments, as well as to contractual assets. The estimated allowance for expected credit losses on a financial asset is estimated at an amount equal to the expected credit losses for the entire credit term if the credit risk on the financial asset has increased significantly since its initial recognition.

If, as of the reporting date, there is no significant increase in the credit risk of a financial asset since initial recognition, the estimated loss allowance for a financial asset is estimated at an amount equal to expected credit losses for 12 months.

For trade receivables and contractual assets, regardless of the availability of significant financing components, an estimate of expected credit losses for the entire term is used.

The application of the new model did not lead to an increase in the amount of the allowance for expected credit losses.

**Financial liabilities**

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivative financial instruments, are subsequently measured at fair value;
- financial guarantee contracts. After initial recognition, financial guarantee contracts are measured at the higher of the estimated allowance for losses and the initially recognised amount less the total amount of income recognised in accordance with the principles of IFRS 15 Revenue from contracts with customers;
- contingent consideration recognised in a business combination IFRS 3 Business Combinations is applied to. Such contingent consideration is subsequently measured at fair value, changes in which are recognised in profit or loss.

The Group, at its discretion, does not classify any financial liabilities as measured at fair value through profit or loss.

Previously, the Group applied a similar classification and measurement of financial liabilities.

Therefore, the adoption of IFRS 9 Financial Instruments did not affect the Group's consolidated financial statements.

The Group applied IFRS 9 Financial Instruments retrospectively and took advantage of the exemption to avoid recounting the previous presented periods due to the application of the new rules.

**The effective interest method**

The effective interest method is used to calculate the amortised cost of debt and the distribution of interest income for the relevant period. The effective interest rate is the rate that discounts the expected future cash inflows (including all payments received or made on a debt instrument that are integral to the effective interest rate, transaction costs, and other premiums or discounts) over an expected period until the debt instrument is settled or (if applicable) for a shorter period to the carrying value at the time the debt instrument is entered into the books.

**Interest income and expense calculated using the effective interest method**

Interest income and expense are recognised on debt instruments at amortised cost or at fair value through profit or loss on an accrual basis using the effective interest method. This method takes into account all payments received or paid between the parties to the transaction as part of interest income or expense and as an integral part of the effective interest rate, transaction costs, premiums or discounts.

Payments that are an integral part of the effective interest rate include commission fees received or paid by the entity related to the creation or acquisition of a financial asset or the issue of a financial liability.

Interest income is calculated by applying the effective interest rate to the gross carrying value of financial assets, with the exception of:

- financial assets that have become impaired, for which interest income is calculated by applying the effective interest rate to their amortised cost (net of allowance for expected credit losses (ECL).

**Derecognition of FAs**

The Group writes off FAs when the contractual rights to cash flows on them are terminated or when the FAs and related risks and benefits are transferred to another entity. If the Group does not transfer and retains all the main risks and benefits of owning the asset and continues to control the transferred asset, it continues to reflect its share in the asset and its possible liabilities. If the Group retains all main risks and benefits of owning the FA transferred, it continues to recognise this FA and reports amounts acquired through transfer as a secured borrowing. When the FA is fully written off, the difference between its carrying value and the consideration received or receivable, as well as changes accumulated in other comprehensive income, are recognised in profit or loss.

If FA is derecognised partially (for example, when the Group retains the opportunity to repurchase part of the transferred asset), the Group distributes the carrying value of FA between the remaining and the written-off parts, based on the balance between the fair value of these parts at the date of transfer. The difference between the carrying value allocated to the part to be written off and the consideration received for the part to be written off, as well as the changes in the part to be written off accumulated in other comprehensive income, are included in profit or loss. Changes recognised in other comprehensive income are distributed on the basis of the fair value of the written-off and remaining parts.

### Equity instruments

An equity instrument is any contract that confirms the right to a share of the entity's assets after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Equity financial instruments issued by the Group's entities are classified as FL or equity based on the essence of the contract, as well as the definitions of FL and equity instrument.

The repurchase of the Company's own equity instruments is recognised as a decrease in equity. The benefits or losses from purchase, sale, issue or cancellation of the Group's own equity instruments are not recognised in profit or loss.

## APPLICATION OF NEW OR REVISED FINANCIAL REPORTING STANDARDS

New and revised standards and interpretations that have been issued but have not yet entered into force are listed below. The Group does not apply early standards, interpretations and amendments that have not entered into force at the date of preparation of these consolidated financial statements. Management has not carried out quantitative and qualitative assessments of the impact of the application of standards that have not entered into force, however, it is understood that the application of new standards may have an impact on the subsequent consolidated financial statements of the Group.

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). IFRS 16 contains a single accounting model for a lessee that removes the separation between operating and financial leases from the perspective of the lessee. All contracts that meet the definition of a lease, except for short-term leases and leases of low value items, for which the lessee has the right not to apply the requirements of IFRS 16 for assessment and classification, will be recorded in the statement of financial position as an “right to use” asset and the corresponding liability. The asset is subsequently recorded as a fixed asset or investment property, and the liability is written off using the interest rate imputed in the lease. Lessor accounting requirements have not changed compared to the previous requirements of IAS 17.
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2020). The amendments clarify that profit or loss is recognised in full if the assets transferred to the associate or joint venture are a business as defined in IFRS 3 Business Combinations. Gains or losses on the sale or contribution of assets that do not constitute a business are recognised only to the extent that the investor does not own a share in the associate or joint venture.
- IFRIC Interpretation 23 Uncertainty regarding the rules for calculating profit taxes (effective for annual periods beginning on or after 1 January 2019). Uncertainty regarding the interpretation of tax laws may affect an entity's accounting for current or deferred tax assets or liabilities. The clarification explains how it is necessary to apply the requirements of IAS 12 Profit Taxes to recognition and measurement when there is uncertainty of tax interpretations in respect of income tax. In this case, the entity shall recognise and measure its current and deferred tax assets or liabilities based on taxable profits (tax loss), tax base, unused tax losses, unused tax benefits, and tax rates determined in accordance with this Interpretation.

# SIGNIFICANT ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

When applying the Group's accounting policies (see Note 4), the management should make projections, estimates, and assumptions to determine the carrying values of assets and liabilities that are not apparent from other sources. Estimated values and underlying assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimations and related assumptions are regularly revised. Changes in estimations are recognised in the current period if they have impact on this period only or in the current and future periods if they have impact on both current and future periods.

The following explanatory notes describe the key areas, which require estimation of uncertainty and the most important judgements that have the most significant impact on the amounts reported in the financial statements:

- Provision for impairment of receivables - Note 16;
- measurement of deferred tax assets and liabilities- Note 12;
- Fair value measurement - Note 24;
- Assessment of the Company's ability to renew operating leases and to enter into new lease agreements.

# CAPITAL AND FINANCIAL RISK MANAGEMENT

## Capital management

The Group's capital management is aimed at the continuation of its business as a going concern and maximisation of profits for participants by optimising the debt to equity ratio.

The Group's capital management objectives are to enable the companies of the Group to continue as a going concern in order to provide income to participants and benefits to other interested parties. As at 31 December 2018, the equity capital totalled RUB 694,631,000 (31 December 2017: RUB 541,528,000).

The Group's capital structure includes net debt and equity of the Group consisting of charter capital, additional capital, provisions, and retained earnings (see Note 18). The Group's net debt as at 31 December 2018 amounted to minus RUB 153,095,000 (as of 31 December 2017: minus RUB 120,326,000). No debt burden and availability of liquidity mean minimal default risks.

**The net debt as at 31 December 2018 and 31 December 2017 is estimated in the table below.**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total debt | 93,663 | 89,456 |
| Net of cash and cash equivalents | 246,758 | 209,782 |
| Net debt | (153,095) | (120,326) |

Adjusted EBITDA is calculated as operating profit less depreciation and less provisions for impairment of assets and estimated liabilities (excluding provisions for impairment of receivables), taking into account the revaluation of fixed assets. Adjusted EBITDA of the Group as at 31 December 2018 was RUB 382,279,000 (as at 31 December 2017, RUB 371,139,000).

| Metric | 2018 | 2017 |
|---|---|---|
| EBITDA | 382,279 | 361,291 |
| Operating profit | 370,465 | 306,857 |
| Amortisation charges | 11,814 | 15,048 |
| Revaluation of fixed assets | – | 39,386 |

## Financial risk management

In the course of its operations, the Group is exposed to the following financial risks: market risk (including currency risk, commodity price risk), credit risk, and liquidity risk. The Group has introduced a risk management system, and developed a number of procedures to measure, assess, and monitor, as well as to select the appropriate risk management methods.

The Group's management developed, documented, and approved the relevant provisions and policies for market and credit risks, liquidity risk, and risk of using derivatives.

## Foreign currency risk

The Group performs transactions denominated in foreign currencies, mainly in US dollars and euros, and is exposed to currency risk as the result of fluctuations of exchange rates. Currency risk is associated with assets, liabilities, operations, and financing expressed in foreign currency.

The carrying value of monetary assets and liabilities denominated in a foreign currency other than the functional currency of the Company is as follows:

| | Assets as of | | Liabilities as of | |
|---|---|---|---|---|
| | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| EUR | 52,008 | 10,840 | (2,010) | (112) |
| USD | 30,700 | 18,894 | (1,633) | – |
| Pound | 308 | – | – | – |
| **Total** | **83,016** | **29,734** | **(3,643)** | (112) |

The Company identifies and manages currency risks using an integrated approach that enables the implementation of natural (economic) hedge. The Company chooses the currency to hold the cash in, such as the Russian rouble, US dollar or other currencies for short-term risk management purposes.

## Analysis of sensitivity of financial instruments to foreign exchange risk

The level of currency risk is assessed on a monthly basis using sensitivity analysis and is maintained within the limits adopted in line with the Company's policy. The table below shows the change in the Company's profit before tax with the growth/(decrease) of the US dollar and the Euro against the Russian rouble.

| | **2018** | **2017** |
|---|---|---|
| The effect of a 10% change in the Euro exchange rate | 4,000/(4,000) | 858/(858) |
| The effect of a 10% change in the US dollar exchange rate | 2,325/(2,325) | 1,512/(1,512) |
| The effect of a 10% change in the Pound exchange rate | 25/(25) | – |

## Credit risk

The Group controls its own exposure to credit risk. The creditworthiness of external counterparties is assessed in relation to all buyers and their financial guarantors, as well as sellers of goods and services who act on a prepayment basis. The Group continuously monitors the financial position of counterparties and controls the risk of default. If counterparties fail to fulfil their obligations, the Group's exposure to the credit risk is limited by the amounts of concluded contracts. As at 31 December 2018, the management assessed the such risk as remote.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. The Group does business with PJSC Sovcombank, VTB Bank (PJSC), PJSC Sberbank. The Company's exposure to credit risk is limited to the carrying value of financial assets recognised on the consolidated statement of financial position.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash and cash equivalents | 246,758 | 209,782 |
| Long-term and short-term trade and other receivables | 660,399 | 734,818 |
| Financial guarantees | 55,040 | 24,620 |
| Total maximum exposure to credit risk | 962,197 | 969,220 |

## Liquidity risk

The Group has mature liquidity risk management processes covering short-term, med-term and long-term funding. Management regularly monitors projected and actual cash flow information, analyses the repayment schedules of the existing financial assets and liabilities, and performs annual detailed budgeting procedures. Information on the maturities of the Group's financial liabilities in accordance with the contractual schedules as at 31 December 2018 and 31 December 2017:

| 31 December 2018 | 12 months | 1–5 years | > 5 years | Total |
|---|---|---|---|---|
| Finance lease liabilities | 11,947 | 47,789 | 142,522 | 202,259 |
| Accounts payable to suppliers and contractors | 275,459 | – | – | 275,459 |
| Short-term and long-term loans and borrowings | 2,016 | – | 41,007 | 43,023 |
| Salary and other benefits payable | 5,999 | – | – | 5,999 |
| Taxes payable | 46,782 | – | – | 46,782 |
| **Total** | **342,203** | **47,789** | **183,529** | **573,522** |

| 31 December 2017 | 12 months | 1–5 years | > 5 years | Total |
|---|---|---|---|---|
| Finance lease liabilities | 11,947 | 47,789 | 154,470 | 214,206 |
| Accounts payable to suppliers and contractors | 328,821 | – | – | 328,821 |
| Short-term and long-term loans and borrowings | 373 | – | 38,165 | 38,538 |
| Salary and other benefits payable | 65 | – | – | 65 |
| Taxes payable | 44,003 | – | – | 44,003 |
| **Total** | **385,209** | **47,789** | **192,635** | **625,633** |

# REVENUE FROM SALES AND COST OF SALES

Basically, all activities and assets of the Group are located in the Russian Federation.

The Group supplies materials for electric supply, electric lighting, and low current systems at facilities of any purpose. Alt components, namely products and customers, have similar economic characteristics, therefore the activities are not segmented.

| | | For the year ended |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Revenue from sales | 3,286,684 | 2,595,265 |
| Cost of sales | (2,490,347) | (2,127,358) |
| Gross profit | 796,337 | 467,907 |

At the end of 2018, revenue from the sale of goods and services to two largest customers amounted to 20% of the Group's revenue, which is equivalent to RUB 664,175,000. (2017, revenue from the sale of goods and services to two largest customers amounted to 23% of the Group's revenue, which is equivalent to RUB 594,289,000).

During 2018, current receivables owned by two largest customers to the Group decreased from RUB 38,762,000 to RUB 34,930,000, which amounted to 5% of total trade receivables of the Group as at 31 December 2017 and 5% - as at 31 December 2018.

### Administrative and selling expenses

| | | For the year ended |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Wages, salaries, and social contributions | 164,898 | 77,718 |
| Transportation services | 52,956 | 29,063 |
| Information services | 41,451 | 18,136 |
| Materials and stationery | 36,202 | 18,404 |
| Consulting and legal services | 29,102 | 13,672 |
| Business trips | 20,112 | 15,891 |
| Operating leases | 16,449 | 8,524 |
| Electrical installation work | 16,101 | 38,014 |
| Amortisation charges | 9,527 | 15,047 |
| Repairs and maintenance | 3,761 | 1,749 |
| Communication costs | 3,736 | (3,170) |
| Banking services | 2,277 | 3,200 |
| Insurance | 1,615 | 6,001 |
| Marketing services | 483 | 742 |
| Security | 296 | 275 |
| Taxes | 272 | 320 |
| Storage | 100 | 0 |
| Other expenses | 22,791 | 18,479 |
| **Total administrative and selling expenses** | **422,129** | **268,405** |

### Other income and expenses

| | | For the year ended |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Revenue from promissory notes presented | – | 93,939 |
| Revenue from sale of shares | (332) | 30,283 |
| Write-off, sale of fixed assets | 381 | 686 |
| Write-off of accounts payable, including salaries and other employee benefits payable | | 510 |
| Creation of provision for trade receivables | 6,811 | (16,369) |
| Creation of provision for short-term investments | (97) | (195) |
| Paying bonuses to customers | (9,105) | – |
| Other expenses | (5,111) | (1,499) |
| **Total other operating income/expenses** | **(7,453)** | **107,355** |

### Finance income and expenses

| | For the year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Interest on bank balance and deposits | 3,992 | 18,412 |
| Interest on loans issued | 754 | 1,877 |
| Foreign exchange gain | 7,028 | 13,310 |
| Total finance income | 11 774 | 33,599 |
| Discount amortisation upon presentation of promissory notes | – | (137,523) |
| Interest expense on long-term promissory notes | – | (10,667) |
| Interest expense | (8,262) | (373) |
| Expenses for finance lease | (11,669) | (11,725) |
| Foreign exchange loss | (3,299) | (10,175) |
| **Total finance expenses** | **(23,230)** | **(170,463)** |
| **Total finance income and expenses** | **(11,456)** | **(136,864)** |

## Profit tax

### Profit tax shown on profit or loss

| | For the year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Current profit tax | (67,147) | (54,995) |
| Deferred tax assets | 1,847 | 915 |
| Deferred tax liabilities | (611) | 18,820 |
| Tax effect | (65,911) | (35,260) |

In 2017-2018, current profit tax rate of 20% was used for the companies of the Group.

### Profit tax expense for the year can made consistent with the profit reported in accounting records in the following way:

| | For the year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Profit before tax on profit from continuing operations | 355,299 | 169,993 |
| Profit lax at 20% tax rate | (71,060) | (33,999) |
| Permanent differences: income and expense, which do not affect taxable profit | 5,149 | (1,261) |
| Unused tax losses unrecognised in the statements | – | – |
| Profit tax shown on profit or loss | (65,911) | (35,260) |

## Deferred taxes

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

| Items | Consolidated statement of financial position as at | | Shown on | | |
|---|---|---|---|---|---|
| | 31 December 2018 | 31 December 2017 | profit or loss | other comprehensive income | equity |
| Fixed assets | (20,061) | (20,061) | – | – | – |
| Provision for impairment of receivables | 307 | – | 307 | – | – |
| Finance lease liabilities | 10,058 | 10,128 | (70) | – | – |
| Accounts payable | (8,201) | (8,613) | 412 | – | – |
| Long-term loans and borrowings | (31,799) | (32,367) | | – | (568) |
| Provision for vacations | 1,982 | 933 | 1,123 | – | (74) |
| Other taxable differences recognised in DTL | (1,871) | – | (953) | – | (918) |
| Other taxable differences recognised in DTA | 4,803 | 4,803 | – | – | – |
| Other deductible differences | 694 | – | 417 | – | 277 |
| Deferred taxes (net), including | (44,088) | (45,177) | 1,236 | – | (1,283) |
| Deferred tax assets | 2,983 | 933 | 1,847 | – | 203 |
| Deferred tax liabilities | (47,071) | (46,110) | (611) | – | (1,486) |
| | **31 December 2017** | **31 December 2016** | **profit or loss** | **other comprehensive income** | **equity** |
| Fixed assets | (20,061) | (31,644) | 1,736 | 9,847 | – |
| Accounts receivable | 4,803 | 12,935 | (8,132) | – | – |
| Finance lease liabilities | 10,128 | 10,184 | (56) | – | – |
| Long-term promissory notes | – | (29,638) | 29,638 | – | – |
| Accounts payable | (8,613) | (4,247) | (4,366) | – | – |
| Long-term loans and borrowings | (32,367) | – | – | – | (32,367) |
| Losses carried forward | 933 | 18 | 915 | – | – |
| Deferred taxes (net), including | (45,177) | (42,392) | 19,735 | 9,847 | (32,367) |
| Deferred tax assets | 933 | 18 | 915 | – | – |
| Deferred tax liabilities | (46,110) | (42,410) | 18,820 | 9,847 | (32,367) |

## Fixed assets

| RUB ’000 | Office and warehousing property | Vehicles | Machinery and equipment | Inventory and other | Total |
|---|---|---|---|---|---|
| As of | | | | | |
| 31 December 2017<br>Initial or revalued cost | 116,648 | 25,942 | 7,199 | 813 | 150,602 |
| Accumulated depreciation | (16,344) | (19,696) | (5,545) | (559) | (42,144) |
| Net book value as at 31 December 2017 | 100,304 | 6,246 | 1,654 | 254 | 108,458 |
| Acquisitions | | 8,217 | 902 | 629 | 9,748 |
| Fixed assets received on acquisition of subsidiaries | – | 661 | 2,423 | 387 | 3,471 |
| Amortisation charges | (5,632) | (4,435) | (1,425) | (322) | (11,814) |
| Disposals at initial or revalued cost | – | (1,158) | – | – | (1,158) |
| Disposals of accumulated depreciation of fixed assets | – | 1,158 | – | – | 1,158 |
| Revaluation of fixed assets recognised in comprehensive income | – | – | – | – | – |
| As of | | | | | |
| 31 December 2018<br>Initial or revalued cost | 116,648 | 33,662 | 10,525 | 1,828 | 162,663 |
| Accumulated depreciation | (21,977) | (22,973) | (6,969) | (880) | (52,800) |
| Net book value as of 31 December 2018 | 94,671 | 10,688 | 3,555 | 948 | 109,863 |
| As of 1 January 2017<br>Initial or revalued cost | 165,883 | 24,976 | 7,199 | 649 | 198,707 |
| Accumulated depreciation | (7,662) | (16,624) | (4,294) | (389) | (28,969) |
| Net book value as of 1 January 2017 | 158,221 | 8,352 | 2,905 | 260 | 169,738 |
| Acquisitions | – | 3,694 | – | 164 | 3,858 |
| Amortisation charges | (8,682) | (4,944) | (1,251) | (170) | (15,047) |
| Disposals at initial or revalued cost | – | (2,728) | – | – | (2,728) |
| Disposals of accumulated depreciation of fixed assets | – | 1,872 | – | – | 1,872 |
| Revaluation of fixed assets recognised in comprehensive income | (49,235) | – | – | – | (49,235) |
| As of 31 December 2017<br>Initial or revalued cost | 116,648 | 25,942 | 7,199 | 813 | 150,602 |
| Accumulated depreciation | (16,344) | (19,696) | (5,545) | (559) | (42,144) |
| Net book value as at 31 December 2017 | 100,304 | 6,246 | 1,654 | 254 | 108,458 |

No fixed assets were pledged as at 31 December 2018. According to the Group's management assessment, carrying value of fixed assets does not differ significantly from their fair value.

Office and warehousing property is carried at market value as at the date of revaluation less accumulated depreciation.

The Group regularly revaluates office and warehousing property at market value as of the end of year. The last revaluation was made as of 31 December 2018. If office and warehousing property was carried at acquisition cost less depreciation, its present value as at 31 December 2018 and 31 December 2017 would have amounted to RUB 35,507,000 and RUB 37,061,000, respectively.

Revaluation reserve as at 31 December 2018 and 31 December 2017 amounted to RUB 69,833,000).

### Short-term and long-term financial assets

| Long-term loans issued | Interest rate | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| to individuals | 8–9% | 3,967 | 1,256 |
| to legal entities | 6% | 757 | – |
| Total long-term loans | | 4,724 | 1,256 |
| Short-term loans issued | | | |
| to legal entities-related parties | 8–9% | – | 2,794 |
| to legal entities | 10–20% | 2,266 | – |
| to individuals | 10–14% | – | 3,553 |
| to individuals-related parties | 8–9% | 289 | 6,207 |
| **Total short-term loans** | | **2,555** | **12 554** |
| **Total loans issued** | | **7,279** | **13,810** |

As at 31 December 2018 and 31 December 2017, loans were issued in roubles to employees and related parties, including entities under common control of the Group. Under the terms of the contract, maturities of long-term loans are 1.5 to 3 years.

There were no overdue issued loans having no relevant provision for impairment, as at 31 December 2018 and 31 December 2017. The amount of the outstanding loan debt reserved for 2018 is RUB 2,029,000 (2017: RUB 1,933,000).

### Inventories

| | As at 31 December 2018 | As at 31 December 2017 |
|---|---|---|
| Goods for sale | 183,352 | 99,403 |
| Basic supplies and raw materials | 25,025 | 11 |
| Finished goods | 61,969 | 976 |
| **Total inventories** | **270,346** | **100,390** |

No inventories were pledged as at 31 December 2018 and 31 December 2017.

### Accounts receivable and prepayments

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables | 551,518 | 550,357 |
| Other accounts receivable | 19,016 | 87,844 |
| Provision for doubtful trade receivables | (8,763) | (8,270) |
| Provision for other doubtful receivables | (1,098) | (7,395) |
| **Total trade receivables** | **560,673** | **622,536** |
| Advances paid and prepayments | 91,631 | 103,693 |
| Provision for doubtful advances issued | (4,549) | (6,416) |
| Total advances paid and prepayments | 87,081 | 97,277 |
| Taxes and fees receivable | 5,366 | 1,195 |
| Total receivables and prepayments | 653,120 | 721,008 |

As at 31 December 2018 and 31 December 2017, no accounts receivable were pledged as collateral for loans and borrowings provided to the Company.

### Accounts receivable by periods of delay as at 31 December 2018 are presented in the table below:

| | 3-6 months | 6-12 months | Over 12 months | Total |
|---|---|---|---|---|
| Overdue debt | 1,075 | 729 | 13,219 | 29,513 |
| Provision for doubtful debt | (538) | (546) | (13,219) | (14,303) |
| Overdue debt net of provision for doubtful debt | 537 | 183 | – | 15,210 |

### Accounts receivable by periods of delay as at 31 December 2017 are presented in the table below:

| | Under 3 months | 3-6 months | 6-12 months | Over 12 months | Total |
|---|---|---|---|---|---|
| Overdue debt | 1,702 | 12,024 | 2,949 | 13,432 | 30,107 |
| Provision for doubtful debt | (425) | (6,012) | (2,212) | (13,432) | (22,081) |
| Overdue debt net of provision for doubtful debt | 1,277 | 6,012 | 737 | – | 8,026 |

### Change in provision for impairment of receivables and prepayments are as follows:

| | | For the year ended |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Provision for impairment of receivables and prepayments as at 1 January | 22,081 | 62,931 |
| Writing off against impairment provision during the year | (955) | (57,219) |
| Creation of impairment provision for receivables during the year | (6,715) | 16,369 |
| Provision for impairment of receivables and prepayments as at 31 December | 14,411 | 22,081 |

# CASH AND CASH EQUIVALENTS

**Cash and cash equivalents include:**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash in current accounts in Russian roubles | 233,712 | 78,904 |
| Cash in foreign currency accounts in all currencies | 13,046 | 28,878 |
| including in US dollars | 8,732 | 18,558 |
| including in Euros | 4,314 | 10,320 |
| Cash equivalents | – | 102,000 |
| Total cash and cash equivalents | 246,758 | 209,782 |

Cash is placed in leading Russian banks, which are among the 500 largest world banks: PJSC Sberbank, VTB Bank (PJSC), PJSC Sovcombank.

# CAPITAL

**Share Capital**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Authorised ordinary shares** | | |
| Number, millions of shares | 610 | 610 |
| Total amount, RUB ’000 | 610,000 | 610,000 |
| **Issued and fully paid shares** | | |
| Number, millions of shares | 610 | 610 |
| Total amount, RUB ’000 | 610,000 | 610,000 |
| Nominal value of one ordinary share, RUB | 1 | 1 |

As at 31 December 2018 and 31 December 2017 authorised, issued and fully paid share capital consisted of 610 million shares with a nominal value of 1 Russian rouble each. All shares are equal, and each share provides voting rights.

## Business combination reserve

On 15 September 2016, interests in the charter capital of LLC EC Evropeyskaya Elektrotekhnica with nominal value of RUB 3,142,000 were transferred to PJSC Evropeyskaya Elektrotekhnica as payment for additional issue of shares of PJSC Evropeyskaya Elektrotekhnica. The market value of shares in the charter capital of LLC EC Evropeyskaya Elektrotekhnica was estimated by an independent expert at RUB 600 mln. According to the results of the transaction, PJSC Evropeyskaya Elektrotekhnica became the sole shareholder of LLC EC Evropeyskaya Elektrotekhnica.

Excess of market valuation of interests in the charter capital of LLC EC Evropeyskaya Elektrotekhnica over their nominal value is accounted for in equity of the group as Business Combination Reserve.

On 17 April 2017, participants of LLC Evropeyskaya Elektrotekhnica made additional contribution to the charter capital of LLC Evropeyskaya Elektrotekhnica in the amount of 100 millions of ordinary shares of PJSC Evropeyskaya Elektrotekhnica with the estimated value of RUB 738 mln.

As a result of acquisition of LLC Evropeyskaya Elektrotekhnica by LLC Evropeyskaya Elektrotekhnica - North-West, business combination reserve of RUB 738,298,000 is accounted for in the equity.

As of 31 December 2018, as a result of the acquisition of PJSC Evropeyskaya Elektrotekhnica of subsidiaries, the business combination reserve was attributed to retained earnings.

## Acquisition of subsidiaries

On 20 April 2018, a 100% stake in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West with a nominal value of RUB 100,000 was sold to PJSC Evropeyskaya Elektrotekhnica at a market value of RUB 194 mln. The excess of the market valuation of the shares in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West over their nominal value is accounted for in the Group's equity as retained earnings.

On 28 June 2018, the transaction was completed to acquire a 95% stake in the charter capital of LLC ROG-Engineering at a nominal value of RUB 9,500. The difference between investment and the value of net assets owned by the Group is reflected as an increase in retained earnings.

Thus, in 2018, as a result of the acquisition of LLC Evropeyskaya Elektrotekhnica - North-West and LLC ROG-Engineering, the carryover of net assets of subsidiaries was reflected:

- as non-controlling interest in the amount of RUB 4,985,000;
- as an increase in retained earnings on the acquisition of subsidiaries in the amount of RUB 15,416,000.

## Dividends and similar payments to participants

The Group has been paying dividends since 2010. In accordance with the Russian legislation, dividends are distributed on the basis of net profit for the year calculated under Russian accounting rules.

On 24 May 2017, the General Meeting of Participants of LLC Evropeyskaya Elektrotekhnica approved payment to the participants based on 2016 performance results in the amount of RUB 6,896,000. Dividends were paid out by LLC Evropeyskaya Elektrotekhnica in Q2 2017.

On 30 August 2017, the General Meeting of Participants of LLC Evropeyskaya Elektrotekhnica - North-West approved payment to the participants based on 2012-2016 performance results in the amount of RUB,1,149,000. Dividends were paid out by LLC Evropeyskaya Elektrotekhnica - North-West in Q3 2017.

Based on the Group's performance results, the General Meeting of Participants approved the payment of dividends based on the Group's performance in 2017 in the amount of RUB 91,897,000, including RUB 8,937,000 for shares owned by a subsidiary, LLC Evropeyskaya Elektrotekhnica. Dividends were paid in Q3 2018.

In 2018, payments were made in favour of participants under finance lease agreements (see Note 21) in the amount of RUB 18,805,000 (in 2017: RUB 21,664,000).

## Additional paid-in capital

Effect of discounting loans provided to LLC EC Evropeyskaya Elektrotekhnica by related parties, Ilya Kalenkov and Sergey Dubenok, on 14 December 2017 in the amount of RUB 200 mln until 31 December 2042, including annual interest rate of 4% is accounted for as additional capital in the amount of RUB 127,194,000.

**Long-term and short-term borrowings and loans**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Long-term loans and borrowings** | | |
| Individuals - related parties | 41,007 | 38,165 |
| **Total long-term borrowings and loans** | **41,007** | **38,165** |
| **Short-term loans and borrowings** | | |
| Individuals - related parties | 2,016 | 373 |
| **Total borrowings and loans** | **43,023** | **38,538** |

As at 31 December 2018, borrowings and loan from related parties amounted to RUB 200 mln for the period of 25 years at the interest rate of 4%. Present value of borrowings amounted to RUB 43,023,000 as at 31 December 2018.

**Accounts payable and estimated liabilities**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 275,293 | 327,756 |
| Advances received | 118,374 | 64,381 |
| Taxes and fees payable, net of profit tax | 32,677 | 18,418 |
| Profit tax payable | 14,115 | 25,585 |
| Estimated liabilities | 9,208 | 4,663 |
| Wages and salaries payable | 5,999 | 65 |
| Other accounts payable | 166 | 1,065 |
| **Total accounts payable** | **455,822** | **441,933** |

Short-term payables in 2018 were repaid within 26 days on average (2017: 51 days). Trade and other payables are non-interest.

As at 31 December 2018, payables included provision for vacations of RUB 9,208,000 (2017: RUB 4,663,000).

## FINANCE LEASES PAYABLE

In the ordinary course of business, finance lease transactions are concluded at market prices or above-market prices. Non-residential finance lease agreements were concluded with individual entrepreneur, Bychkova Olga (concluded on 1 September 2008, in the amount of RUB 32,320,000, for 25 years) and individual entrepreneur, Dubenok Tatiana (concluded on 1 June 2014, in the amount of RUB 19,444,000, for 25 years).

**As at 31 December 2018, finance leases were reported as follows:**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Long-term finance leases payable | 50,291 | 50,640 |
| Short-term finance leases payable | 349 | 278 |
| Total finance lease liabilities | 50,640 | 50,918 |
| | | For the year ended |
| | 31 December 2018 | 31 December 2017 |
| Finance expenses | (11,669) | (11,725) |
| Administrative expenses (reversal) | 11,947 | 11,947 |
| Impact on net profit for the year | 278 | 222 |

In 2018, payments to participants in the amount of RUB 18,805,000 (2017: RUB 21,664,000) were recognised in equity.

**All finance lease payables are denominated in currency of the Russian Federation - the Russian rouble.**

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| Finance lease liabilities | | | | |
| Short-term | 11,947 | 11,947 | 349 | 278 |
| 1 to 5 years | 47,789 | 47,789 | 3,472 | 976 |
| Over 5 years | 142,522 | 154,470 | 46,819 | 49,664 |
| Total | 202,258 | 214,206 | 50,640 | 50,918 |
| Net of future financing costs | (151,618) | (163,288) | – | – |
| Present value of minimum lease payments | 50,640 | 50,918 | 50,640 | 50,918 |

## OPERATING LEASES

Operating leases have different terms and mostly represent short-term space leases for regional offices and logistics centres (with the automatic renewal clause), as well as a long-term land lease for land plot for with warehousing property in the Moscow Region. The contracts contain reservations about a possible annual review of rents and contract terms.

Total operating lease expenses for the years ended 31 December 2018 and 31 December 2017 amounted to RUB 16,449,000 and RUB 8,524,000, respectively. These expenses were recognised as administrative and selling expenses in the consolidated statement of profit or loss and other comprehensive income.

## CAPITAL COMMITMENTS

As at 31 December 2018, the Group had no capital commitments.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group has no financial assets and financial liabilities traded on active liquid markets, which fair value could be determined at their quotation price. The fair value measurement is aimed at determining the price that would be received through the sale of an asset or paid through the transfer of a liability in an orderly transaction between market participants at the measurement date. Nevertheless, given uncertainty and subjectivity of judgements, fair value should not be interpreted as actual price in case of immediate sale of assets or transfer of liabilities.

Fair value of financial assets and financial liabilities of the Group is determined in accordance with generally accepted models based on the analysis of discounted cash flows using prices of actual market transactions. The Management believes that fair value of financial assets and liabilities of the Group does not differ significantly from their present value as at 31 December 2018.

The following table presents an analysis of fair value of principal financial instruments, which are not measured at fair value by level of the fair value hierarchy.

| | As of 31 December 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets, for which fair values are disclosed: | | | | |
| Long-term loans issued | – | – | 4,724 | 4,724 |
| Short-term loans issued | – | – | 2,555 | 2,555 |
| Cash and cash equivalents | 246,758 | – | – | 246,758 |
| **Total financial assets** | **246,758** | **–** | **7,279** | **254,037** |
| Liabilities, for which fair values are disclosed: | | | | |
| Long-term finance leases payable | – | – | 50,291 | 50,291 |
| Short-term finance leases payable | – | – | 349 | 349 |
| Short-term loans and borrowings | – | – | – | – |
| **Total financial liabilities** | **–** | **–** | **50,640** | **50,640** |

| | As of 31 December 2017 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets, for which fair values are disclosed: | | | | |
| Long-term loans issued | – | – | 1,256 | 1,256 |
| Short-term loans issued | – | – | 12 554 | 12 554 |
| Cash and cash equivalents | 209,782 | – | – | 209,782 |
| **Total financial assets** | **209,782** | **–** | **13,810** | **223,592** |
| Liabilities, for which fair values are disclosed: | | | | |
| Long-term finance leases payable | – | – | 50,640 | 50,640 |
| Short-term finance leases payable | – | – | 278 | 278 |
| Short-term loans and borrowings | – | – | 373 | 373 |
| **Total financial liabilities** | **–** | **–** | **51 291** | **51 291** |

## RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties may enter into transactions which unrelated parties might not. In addition, such transactions may be effected on the terms other than those between unrelated parties.

Related party transactions are disclosed in aggregate form for participants and companies under control of participants. Moreover, every period allows an additional disclosure of certain significant transactions (balances and turnovers) with certain related parties. Balances on settlements and transactions between the companies of the Group were eliminated during consolidation, and information about them is not disclosed in this note.

**Related parties of the Group are:**

| | Host country | Activities |
|---|---|---|
| **Individuals** | | |
| Ilya Kalenkov | Russia | CEO, shareholder of the Company |
| Sergey Dubenok | Russia | Shareholder of the Company |
| Mikhail Baskov | Russia | Member of the Board of Directors |
| Vladimir Grubenko | Russia | Member of the Board of Directors |
| Andrey Smirnov | Russia | Member of the Board of Directors |
| Joel Lautier | France | Member of the Board of Directors |
| Alexey Naydenkov | Russia | LLC Evropeyskaya Elektrotekhnica - North-West, CEO |
| Habir Kilmukhametov | Russia | General Director of LLC ROG-Engineering |
| | Host country | Activities |
| **Legal entities** | | |
| LLC Evropeyskaya Elektrotekhnica - Novosibirsk | Russia | Other related parties |
| LLC Evropeyskaya Elektrotekhnica - Povolzhye | Russia | Other related parties |
| LLC Evropeyskaya Elektrotekhnica - Samara | Russia | Other related parties |
| LLC Evropeyskaya Elektrotekhnica - Ufa | Russia | Other related parties |
| LLC Engineering Center Techstroy | Russia | Other related parties |
| LLC Eltek | Russia | Other related parties |
| LLC Centerstroy | Russia | Other related parties |
| LLC Evropeyskaya Elektrotekhnica - Krasnodar | Russia | Other related parties |
| Individual entrepreneur Bychkova Olga | Russia | Other related parties |
| Individual entrepreneur Dubenok Tatiana | Russia | Other related parties |
| Individual entrepreneur Pavel Galanin | Russia | Other related parties |
| Individual entrepreneur Alexey Naydenkov | Russia | Other related parties |

The information on the Group's transactions with related parties is presented below.

## Remuneration for key management personnel

Remuneration for key management personnel for 2018 amounted to RUB 5,804,000 (2017: RUB 3,911,000). This remuneration includes exclusively short-term compensation. The Group did not make any other payments to key management personnel. Debt balances at the end of every reporting period were insignificant.

## Related party transactions

**During 2018 and 2017, the Group's enterprises made the following transactions with other related parties.**

| | For the year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Other revenues | 41,690 | 143,245 |
| Other expenses | (70,536) | (426) |
| Total operating activities | (28,846) | 142,819 |
| Finance income | – | – |
| Finance expenses | (11,947) | (11,947) |
| **Total financing activities** | **(11,947)** | **(11,947)** |
| Interest on loans issued | – | – |
| Loans issued | – | 10,379 |
| **Total investing activities** | **–** | **10,379** |

**During 2018 and 2017, the Group's enterprises made the following transactions with shareholders.**

| | For the year ended | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| Other revenues | – | 59,107 |
| Other expenses | – | (1,873) |
| **Total operating activities** | **–** | **57,234** |
| Dividends and similar payments to participants | – | – |
| Dividends and similar payments to participants | (18,805) | (21,670) |
| **Total financing activities** | **(18,805)** | **(21,670)** |
| Finance income | 136 | 3,051 |
| Finance expenses | (8,000) | – |
| Short-term loans issued | – | (178,000) |
| Repayment of short-term loans issued | 31,000 | 178,000 |
| Total investing activities | 23,136 | 3,051 |

On 17 April 2017, the charter capital of LLC Evropeyskaya Elektrotekhnica was increased by RUB 738 mln. Additional contributions of the participants, Sergey Dubenok and Ilya Kalenkov, were paid with ordinary shares of PJSC Evropeyskaya Elektrotekhnica at the estimated value of RUB 7,38 per share.

On 9 November 2017, 99% of the charter capital of LLC Evropeyskaya Elektrotekhnica were sold to LLC Evropeyskaya Elektrotekhnica - North-West. Part of the debt under this assignment agreement in the amount of RUB 66 mln was transferred to LLC Evropeyskaya Elektrotekhnica.

On 20 April 2018, PJSC Evropeyskaya Elektrotekhnica purchased 50% stake in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West from Sergey Dubenok with the nominal value of RUB 50,000 at the estimated value of RUB 97 mln and 50% stake in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West from Ilya Kalenkov with the nominal value of RUB 50,000 at the estimated value of RUB 97 mln.

**Debt balances with other related parties at the end of every reporting period are presented in the table below.**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Short-term loans issued | – | 34,247 |
| Accounts receivable and prepayments | 3,353 | 25,364 |
| Accounts payable and estimated liabilities | (4,134) | – |
| **Total** | **781** | **59,611** |

**Debt balances with shareholders at the end of every reporting period are presented in the table below.**

| | As at 31 December 2018 | As at 31 December 2017 |
|---|---|---|
| Long-term loans and borrowings | 41,007 | 38,165 |
| Short-term loans issued | – | 6,207 |
| Short-term loans and borrowings | 2,016 | 373 |
| **Total** | **43,023** | **44,745** |

## Loans issued to shareholders

In 2018, loans previously issued to shareholders were fully repaid.

In 2017, there were the following transactions with loans issued to shareholders:

Sergey Dubenok - a loan issued at 8% and with a loan term of 12 months:

| Balance as of 1 January 2017 | Issued | Repaid | Balance as of 31 December 2017 | Data on debt repayment |
|---|---|---|---|---|
| 6,500 | 62,000 | (53,000) | 15,500 | RUB 20 mln in cash<br>RUB 33 mln under assignment agreement with LLC Evropeyskaya Elektrotekhnica - North-West |

Ilya Kalenkov - a loan issued at 8% and with a loan term of 12 months.

| Balance as of 1 January 2017 | Issued | Repaid | Balance as of 31 December 2017 | Data on debt repayment |
|---|---|---|---|---|
| 2,500 | 66,000 | (53,000) | 15,500 | RUB 20 mln in cash<br>RUB 33 mln under assignment agreement with LLC Evropeyskaya Elektrotekhnica - North-West |

Sergey Dubenok - a loan issued at 8% with a loan term of 12 months.

| Balance as of 1 January 2017 | Issued | Repaid | Balance as of 31 December 2017 | Data on debt repayment |
|---|---|---|---|---|
| – | 25,000 | (25,000) | – | Promissory note of LLC EC Evropeyskaya Elektrotekhnica |

Ilya Kalenkov - a loan issued at 8% and with a loan term of 12 months.

| Balance as of 1 January 2017 | Issued | Repaid | Balance as of 31 December 2017 | Data on debt repayment |
|---|---|---|---|---|
| – | 25,000 | (25,000) | – | Promissory note of LLC EC Evropeyskaya Elektrotekhnica |

# CONTINGENCIES AND COMMITMENTS

## Legal claims

The Group is involved as a plaintiff in a number of court proceedings, which arose in the course of business. The Management believes that there are no such current legal proceedings or claims, which could have a material effect on the results of operations or financial position of the Group.

## Taxation

The Russian commercial, including tax, laws, the Group is operating under, are subject to varying interpretations and frequent change. There is also risk of arbitrary decisions on business operations taken by tax authorities. If any specific actions based on management's judgments about the Group's business operations are challenged by the tax authorities, the Group can be charged with additional taxes, penalties, and interest.

Management of the Group believes that all necessary taxes are accrued and there are no corresponding provisions to be created in the statements.

From 1 January 2012, principles according to which market prices are determined have been changed for the purposes of tax control, lists of persons who can be considered interdependent and lists of controlled transactions have been extended. Since practice of enforcement of new rules has not been established so far and certain norms of the new law are contradictory, they cannot be classified as well-defined.

In order to eliminate significant impact of risks arising from transactions between interdependent persons on the combined financial statements, the Company has developed methodologies of pricing based on key types of controlled transactions between interdependent persons and conducts annual research of databases in order to determine market price level (profitability) for controlled transactions.

The Group believes that the risks associated with pricing in intra-group transactions in 2017–2018 will not have a material impact on its financial position and performance results.

# EVENTS AFTER THE REPORTING DATE

As of the reporting date, there are no significant events after the reporting date.

# ENERGY
## Resources Used

| | Amount (by volume) | Amount (by value, RUB) |
|---|---|---|
| Nuclear | – | – |
| Thermal energy, Gcal | 427.1 | 710,511.0 |
| Electricity, kWh | 298,292.0 | 1,572,893.1 |
| Electromagnetic energy | – | – |
| Oil | – | – |
| Motor gasoline, l | 23,521.7 | 889,487.9 |
| Diesel fuel, l | 39,820.7 | 1,439,140.9 |
| Fuel oil | – | – |
| Natural gas, cu.m | 126.3 | 648,983.0 |
| Coal | – | – |
| Oil shale | – | – |
| Turf | – | – |
| Others | – | – |

# LIST
## of Major Transactions and Related-Party Transactions made by the issuer

### TRANSACTION NO. 1

Transaction Date: 22 February 2018

Subject and other material terms of the transaction:
The Surety shall be liable to the Bank for the Principal's fulfilment of all obligations under Agreement No. 541on the provision of bank guarantees of 29 November 2017. Obligations, the performance of which is ensured by the Agreement, include, but not limited to:
- obligations to reimburse the amounts paid by the Guarantor to the Beneficiary under the Guarantee;
- obligations to pay fees for the forced diversion of funds and other payments under the Bank Guarantee Agreement;
- obligation to pay forfeit;
- court fees and other expenses of the Bank related to the exercise of rights under the Bank Guarantee Agreement and this Agreement;
- reimbursement of the amounts paid by the Guarantor to the Beneficiary under the Guarantee and interest on third-party money accrued in accordance with Art. 395 of the Civil Code of the Russian Federation for the indicated amounts if the Agreement on the provision of a bank guarantee and (or) the Guarantee is invalid or the Agreement on the provision of a bank guarantee is declared null and void.
  The total amount of the concurrent Guarantees (hereinafter - the Limit) may not exceed RUB 450,000,000.00 (four hundred and fifty million).

Guarantees worth not more than RUB 300,000,000 (three hundred million) in favour of the beneficiaries:
- Russian Federation, constituent entities of the Russian Federation and municipalities - the contract is concluded under Federal Law No. 44 – FL “On the Contract System of the Federal and Municipal Procurement of Goods, Works and Services”;
- legal entities partially owned by the government - the contract is concluded under Federal Law No. 223 – FL “On Procurement of Goods, Work, and Services by Certain Types of Legal Entities”;
- a large private commercial organisation (annual revenue - over RUB 10,000,000,000 (ten billion));

Guarantees worth not more than RUB 50,000,000 (fifty million) in favour of other beneficiaries.
The Limit is valid from the date of conclusion of the Bank Guarantee Agreement to 28 November 2020.

**Parties and beneficiaries to the transaction**

Public Joint Stock Company Sberbank of Russia (hereinafter - the Bank, the Guarantor).

Public Joint-Stock Company Evropeyskaya Elektrotekhnica (hereinafter - the Surety)

Beneficiary: Limited Liability Company Engineering Centre Evropeyskaya Elektrotekhnica (LLC EC Evropeyskaya Elektrotekhnica, address: 17, Building 2, Office 9, Marshal Timoshenko Ul., Moscow, 121359, OGRN 1087746603340, TIN 7731593655, KPP 773101001) (hereinafter - the Principal).

Beneficiaries: legal entities - customers of works on the construction of power supply systems, design, supply of equipment and materials, commissioning and installation works presented in the field, including, but not limited to: oil and gas complex, energy, engineering, transport, telecommunications services and communications, chemical, food, metallurgical, mining industries, the military-industrial complex, the State Corporation, including Rosatom and others, public, trade and office sites.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of conclusion of the agreement to 28 November 2023.

The size (price) of the transaction in monetary terms: RUB  450,000,000

The size (price) of the transaction as a percentage of the value of the issuer's assets, the size at the end of the last completed reporting period preceding the date of the transaction:
- 73.55%.

The issuer's governing body that made the decision to agree to the transaction or on the subsequent approval of the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation and Minutes number: 20 February 2018, Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica

# TRANSACTION NO. 2

Transaction Date: 22 February 2018

Subject and other material terms of the transaction:
The Surety shall be liable to the Bank for the Principal's fulfilment of all obligations under Agreement No. 542on the provision of bank guarantees of 29 November 2017.

Obligations, the performance of which is ensured by the Agreement, include, but not limited to:

- obligations to reimburse the amounts paid by the Guarantor to the Beneficiary under the Guarantee;
- obligations to pay fees for the forced diversion of funds and other payments under the Bank Guarantee Agreement;
- obligation to pay forfeit;
- court fees and other expenses of the Bank related to the exercise of rights under the Bank Guarantee Agreement and this Agreement;
- reimbursement of the amounts paid by the Guarantor to the Beneficiary under the Guarantee and interest on third-party money accrued in accordance with Art. 395 of the Civil Code of the Russian Federation for the indicated amounts if the Agreement on the provision of a bank guarantee and (or) the Guarantee is invalid or the Agreement on the provision of a bank guarantee is declared null and void.

The total amount of the concurrent Guarantees (hereinafter - the Limit) may not exceed RUB 300,000,000.00 (three hundred million).

Guarantees worth not more than RUB 100,000,000 (one hundred million) in favour of the beneficiaries:

- Russian Federation, constituent entities of the Russian Federation and municipalities - the contract is concluded under Federal Law No. 44 – FL “On the Contract System of the Federal and Municipal Procurement of Goods, Works and Services”;
- legal entities partially owned by the government - the contract is concluded under Federal Law No. 223 – FL “On Procurement of Goods, Work, and Services by Certain Types of Legal Entities”;
- a large private commercial organisation (annual revenue - over RUB 10,000,000,000 (ten billion));

Guarantees worth not more than RUB 30,000,000 (thirty million) in favour of other beneficiaries.

The Limit is valid from the date of conclusion of the Bank Guarantee Agreement to 28 May 2019.

**Parties and beneficiaries to the transaction**

Public Joint Stock Company Sberbank of Russia (hereinafter - the Bank, the Guarantor).

Public Joint-Stock Company Evropeyskaya Elektrotekhnica (hereinafter - the Surety)

Beneficiary: Limited Liability Company Engineering Centre Evropeyskaya Elektrotekhnica (LLC EC Evropeyskaya Elektrotekhnica, address: 17, Building 2, Office 9, Marshal Timoshenko Ul., Moscow, 121359, OGRN 1087746603340, TIN 7731593655, KPP 773101001) (hereinafter - the Principal).

Beneficiaries: legal entities - customers of works on the construction of power supply systems, design, supply of equipment and materials, commissioning and installation works presented in the field, including, but not limited to: oil and gas complex, energy, engineering, transport, telecommunications services and communications, chemical, food, metallurgical, mining industries, the military-industrial complex, the State Corporation, including Rosatom and others, public, trade and office sites.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of conclusion of the agreement to 28 May 2022.

The size (price) of the transaction in monetary terms: RUB 300,000,000.

The size (price) of the transaction as a percentage of the value of the issuer's assets, the size at the end of the last completed reporting period preceding the date of the transaction:

- 49.03%.

The issuer's governing body that made the decision to agree to the transaction or on the subsequent approval of the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation: 20 February 2018,

Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica.

Transactions No. 1 and 2 are interconnected, and in accordance with the legislation of the Russian Federation are recognised as major.

## TRANSACTION NO. 3

Transaction Date: 20 April 2018.

Subject and other material terms of the transaction:
- purchase and sale of 100% shares in the charter capital of Evropeyskaya Elektrotekhnica - North-West.
- Sergey Dubenok sold his stake (50%) in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West to PJSC Evropeyskaya Elektrotekhnica, and PJSC Evropeyskaya Elektrotekhnica purchased the specified share from Sergey Dubenok. Settlement between the parties will be made during the term of fulfilment of obligations under the transaction. The parties agreed that the pledge for the indicated share does not arise with Sergey Dubenok.

**Parties and beneficiaries to the transaction:**

The seller of the share is Sergey Dubenok.

The Buyer is Public Joint-Stock Company Evropeyskaya Elektrotekhnica.

There are no beneficiaries to the transaction.

Information about the person (people) recognised in accordance with the legislation of the Russian Federation as a related party (parties): Sergey Dubenok.

The grounds, on which such a party is recognised as related: According to paragraph 1 of Art. 81 of Federal Law dated 26 December 1995 No. 208 – FL “On Joint-Stock Companies”, Dubenok Sergey is a related party to the transaction of the sale of shares in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West between Sergey Dubenok and PJSC Evropeyskaya Elektrotekhnica, the former is a member of the Board of Directors of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica - the Buyer, and the Party to the transaction - the Seller.

The size (price) of the transaction in monetary terms: RUB 97,000,000.

The size (price) of the transaction as a percentage of the carrying value of the issuer's assets at the end of the last completed reporting period preceding the date of the transaction:
- 13.22%.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of the notarisation of the agreement to 11 April 2019.

The issuer's governing body that made the decision to approve the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation and Minutes number: 20 February 2018, Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of Public Joint-Stock Company Evropeyskaya Elektrotekhnica

# TRANSACTION NO. 4

Transaction Date: 20 April 2018.

Subject and other material terms of the transaction:
purchase and sale of 100% shares in the charter capital of Evropeyskaya Elektrotekhnica - North-West.
Ilya Kalenkov sold his stake (50%) in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West to PJSC Evropeyskaya Elektrotekhnica, and PJSC Evropeyskaya Elektrotekhnica purchased the specified share from Ilya Kalenkov. Settlement between the parties will be made during the term of fulfilment of obligations under the transaction. The parties agreed that the pledge for the indicated share does not arise with Ilya Kalenkov.

**Parties and beneficiaries to the transaction:**

The seller of the share is Ilya Kalenkov.

The Buyer is Public Joint-Stock Company Evropeyskaya Elektrotekhnica.

There are no beneficiaries to the transaction.

Information about the person (people) recognised in accordance with the legislation of the Russian Federation as a related party (parties): Ilya Kalenkov

The grounds, on which such a party is recognised as related:
According to paragraph 1 of Art. 81 of Federal Law dated 26 December 1995 No. 208 – FL "On Joint-Stock Companies", Ilya Kalenkov is a related party to the transaction of the sale of shares in the charter capital of LLC Evropeyskaya Elektrotekhnica - North-West between and PJSC Evropeyskaya Elektrotekhnica, the former is a member of the Board of Directors, CEO of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica - the Buyer, and the Party to the transaction - the Seller.

The size (price) of the transaction in monetary terms: RUB 97,000,000.

The size (price) of the transaction as a percentage of the carrying value of the issuer's assets at the end of the last completed reporting period preceding the date of the transaction:
► 13.22%.

The term for fulfilment of obligations under the transaction, as well as information on the fulfilment of these obligations: from the date of the notarisation of the agreement to 11 April 2019.

The issuer's governing body that made the decision to approve the transaction: General Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica.

Date of the decision to authorise the transaction: 19 February 2018.

Date of compilation and Minutes number: 20 February 2018, Minutes No. 1-02/2018 of the Extraordinary General Meeting of Shareholders of Public Joint-Stock Company Evropeyskaya Elektrotekhnica

Transactions No. 3 and No. 4 are interrelated, and in accordance with the legislation of the Russian Federation are recognised as major transactions and as related-party transactions as well.

# REPORT ON COMPLIANCE
## with Principles and Recommendations of the Code of Corporate Governance

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
|---|---|---|---|---|
| **1.1** | The Company shall provide for equal and fair treatment of all shareholders when they exercise their right to participate in the Company's management. | | | |
| **1.1.1** | The Company creates maximally favourable conditions for shareholders participation in the General Meeting, for working out a justified position on the General Meeting agenda items, for coordinating their activities, as well as for expressing their opinions on the issues under consideration. | 1. There exists a publicly available internal document of the Company approved by the General Meeting of Shareholders and regulating the procedures for holding the General Meeting.<br>2. The Company provides an accessible way to communicate with the Company, such as a hot line, e-mail, or forum on the Internet that allows shareholders to express their opinions and send in questions regarding the agenda during preparation for the General Meeting. The above said steps were taken by the Company before each General Meeting held in the reporting period. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
|---|---|---|---|---|
| 1.1.2 | The procedure for notification on holding the General Meeting and provision of materials for the General Meeting gives the shareholders an opportunity to properly prepare for their participation in it. | 1. Notification on holding a General Meeting of Shareholders is posted (published) on the website no later than 30 days before the date of the General Meeting.<br>2. Notification on holding a Meeting specifies a location of the meeting and the documents required for admission to the building.<br><br>3. Shareholders were provided with access to information about who proposed agenda items and who proposed nominees to the Board of Directors and the Audit Commission of the Company. | observed<br><br>V Partially observed<br><br>not observed | Note to para 2 of assessment criteria<br>In notifications on holding a General Meeting of Shareholders in 2018 no documents required for admission to a building were mentioned.<br><br>During the course of the issuer's plans implementation as relates to improvement of corporate government and adherence to maximum compliance with the recommendations of the Code of Corporate Government (recommended for use by the Central Bank of the Russian Federation; hereinafter - the Code), as well as introduction of new corporate procedures, there were some omissions, which are supposed not to be allowed by the issuer in future.<br><br>The above said deviation from the Code recommendations had no influence on rights and opportunities of the shareholders in participation in all General Meetings of Shareholders held in 2018 and in previous years. It should be noted that in case of some doubts regarding the documents required for admission to a building where the meetings took place, the shareholders had an opportunity to address to the issuer by phone or by email, which were specified on the issuer's official website and on the website of the agency authorised for information disclosure.<br><br>Since 2019, all notifications on holding a General Shareholder Meeting shall be added with this information. |
| 1.1.3 | During preparing and holding the General Meeting, the shareholders were able to receive information about the meeting and its related materials in a timely and unconstrained manner, ask questions to the executive bodies and the members of the Board of Directors, and communicate with each other. | 1. During the reporting period, shareholders were given an opportunity to ask questions to the members of the executive bodies and the Board of Directors before and during the Annual General Meeting.<br>2. The positions of the Board of Directors (including special opinions included in the Minutes) on each item of the agenda of the General Meetings conducted within the reporting period were included in the materials for the General Meeting of Shareholders.<br><br>3. The Company provided the entitled shareholders with access to the list of people entitled to participate in the General Meeting starting from the date of the list receipt by the Company for every General Meeting held in the reporting period. | **V observed**<br><br>partially observed<br><br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
|---|---|---|---|---|
| 1.1.4 | The exercise of a shareholder's right to demand convocation of the General Meeting, to nominate candidates to the governing bodies, and to submit proposals to be included in the agenda of the General Meeting did not involve undue difficulties. | 1. During the reporting period, shareholders had an opportunity to submit proposals to be included in the agenda of the Annual General Meeting for at least 60 days following the end of the respective calendar year.<br>2. During the reporting period, the Company did not reject any proposals for the agenda or candidates for the Company's executive bodies due to typographical errors or other nonessential flaws present in a shareholder's proposal. | observed<br>**V partially observed**<br>not observed | Note to para 1 of assessment criteria<br>An opportunity to submit proposals to be included in the agenda of the Annual General Meeting for at least 60 days following the end of the respective calendar year was fixed in the Charter since December 2018, so in the reporting period the shareholders had no opportunity to exercise this right. The right will be available for the shareholders in 2019. |
| 1.1.5 | Each shareholder had the opportunity to exercise his/her right to vote in a unconstrained manner using the easiest and most convenient means. | 1. The internal document (internal policy) of the Company contains provisions pursuant to which each participant of the General Meeting is entitled, before the completion of the meeting in question, to request a copy of their completed ballot certified by the Tally Commission. | **V observed**<br>partially observed<br>not observed | |
| 1.1.6 | The General Meeting procedure established by the Company provides equal opportunities for all persons attending the meeting to express their opinions and ask any questions. | 1. During the General Meetings of Shareholders held in the reporting period in the form of a meeting (collective attendance of shareholders), there was sufficient time provided for reports concerning the agenda issues and time to discuss such issues.<br>2. Candidates for the Company's governing and control bodies were available to answer questions asked by the shareholders at the meeting where their nominations were voted upon.<br><br>3. When making decisions related to preparing and holding the General Meetings during the reporting period, the Board of Directors considered the use of telecommunications facilities to provide shareholders remote access for participation in General Meetings. | observed<br>**V partially observed**<br>not observed | Note to para 3 of assessment criteria<br>When making decisions related to preparing and holding the General Meetings during the reporting period, the Board of Directors did not consider the use of telecommunications facilities to provide shareholders remote access for participation in General Meetings.<br><br>The issuer's management analysed the ratio of number of shareholders included into each list of persons entitled to participate in the General Meetings of Shareholders and actually attended all meetings hold by the issuer and number of General Meetings hold in the previous reporting periods. Also activity of shareholders interaction with the issuer by one of proposed communication line - email - was monitored. All abilities of the issuer on arranging the remote access for the shareholders to participate in the General Meetings were considered. Based on obtained information, the issuer's management concluded that in the reporting period it was not expedient to submit the issue on using the telecommunication means for the shareholders' remote participation in General Meetings for consideration by the Board of Directors.<br><br>The issuer's management intends to regularly analyse the shareholders' needs in excising their rights by remote access, as well as to review expediency and possibility of the above said way of communication for submitting to the Board of Directors for consideration. |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 1.2 | Shareholders were given an equal and fair opportunity to participate in the Company's profits by receiving dividends. | | | |
| 1.2.1 | The Company has developed and implemented a transparent and clear mechanism for determining the amount of dividends and paying them. | 1. The Company's dividend policy has been developed, approved by the Board of Directors, and disclosed.<br>2. If the dividend policy of the Company uses indicators from the Company's reporting to determine the amount of dividends, the relevant dividend policy provisions shall consider the indicators of consolidated financial statements. | **V observed**<br>partially observed<br>not observed | |
| 1.2.2 | The Company shall not make a decision on the payment of dividends if such a decision, without constituting a formal violation of the restrictions imposed by law, is economically unreasonable and may lead to the formation of misconceptions about the Company's activities. | 1. The Company's dividend policy provides clear guidance on the financial/economic circumstances where the Company should not pay dividends. | **V observed**<br>partially observed<br>not observed | |
| 1.2.3 | The Company does not allow any deterioration of dividend rights for existing shareholders. | 1. During the reporting period, the Company did not take any action leading to deterioration of the dividend rights of existing shareholders. | **V observed**<br>partially observed<br>not observed | |
| 1.2.4 | The Company is committed to prevent the shareholders from using the other ways of profit making (income) at the expense of the Company apart from dividends and disposal value. | 1. To prevent the shareholders from using the other ways of profit making (income) at the expense of the Company apart from dividends and disposal value, the Company's internal documents establish control mechanisms that ensure timely identification and a procedure for the approval of transactions with persons affiliated (associated) with substantial shareholders (persons entitled to manage the votes from voting shares) in cases where the law does not formally recognize such transactions as related-party transactions. | **V observed**<br>partially observed<br>not observed | |
| 1.3 | The Corporate Governance System and its practices ensure equal conditions for all shareholders holding shares of one category (type), including minority (small) shareholders and foreign shareholders, as well as their equal treatment by the Company. | | | |
| 1.3.1 | The Company has created conditions for the fair treatment of each shareholder by the Company's governing and control bodies, including conditions that ensure inadmissibility of major shareholders' abuses in relation to minority shareholders. | 1. During the reporting period, the procedures for managing potential conflicts of major shareholders' interests were effective, and conflicts between shareholders, if there were any, were given due attention by the Board of Directors. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 1.3.2 | The Company takes no actions that lead or may lead to an artificial redistribution of corporate control. | 1. Quasitreasury shares are absent or did not vote during the reporting period. | observed<br>partially observed<br>**V not observed** | Note to para 1 of assessment criteria The Company has quasitreasury shares. The issuer recognizes that quasitreasury shares can influence the corporate control of the Company and seeks not to take any actions, which can lead to artificial redistribution of corporate control at the issuer.<br><br>However, the issuer cannot allow the General Shareholder Meeting not to take the decisions, which are required to be taken to provide proper governing and control bodies available in the interests of the Company's shareholders.<br><br>The quasitreasury shares voting at the Annual General Shareholder Meeting in the reporting year was dictated by lack of right (stipulated by the law) of the Board of Directors members being the shareholders to vote on Audit Commission election issues. To avoid a risk of failure to elect a supervision and auditing body of the Company at the Annual General Shareholder Meeting, the quasitreasury shares voted only on this issue of the agenda.<br><br>The Company takes no actions that lead or may lead to an artificial redistribution of corporate control. |
| 1.4 | Shareholders are provided with reliable and effective methods of accounting for rights to shares as well as with the possibility for free and unhindered disposal of the shares they hold. | | | |
| 1.4 | Shareholders are provided with reliable and effective methods of accounting for rights to shares as well as with the possibility for free and unhindered disposal of the shares they hold. | 1. The quality and reliability of the Company's registrar activities for maintaining the register of securities holders meet the needs of the Company and its shareholders. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.1 | The Board of Directors carries out the Company's strategic management, defines the basic principles and approaches to the Company's Risk Management and Internal Control System, controls the operations of executive bodies, and also exercises other key functions. | | | |
| 2.1.1 | The Board of Directors is responsible for making decisions related to the appointment to and release from executive body positions, inter alia, due to a failure of members of such bodies to perform their duties properly. The Board of Directors also supervises that the Company's executive bodies act in accordance with the approved development strategy and main lines of the Company's activities. | 1. The Board of Directors has statutory powers to appoint to and release from a position, and also to define the contract terms for executive body members.<br>2. The Board of Directors has reviewed the report(s) of the sole executive body and the members of the collegial executive body on the Company's implementation of strategy. | **V observed**<br>partially observed<br>not observed | |
| 2.1.2 | The Board of Directors establishes the basic guidelines of the Company's activities in the long term, evaluates and approves the key performance indicators and core business objectives of the Company, and evaluates and approves the strategy and business plans for the Company's core activities. | 1. During the reporting period, the Board of Directors meetings discussed issues related to progress in the implementation and actualization of the strategy, the approval of the financial and economic plan (budget) of the Company, and the consideration of criteria and indicators (including the interim ones) of the Company's strategy and implementation of its business plan. | **V observed**<br>partially observed<br>not observed | |
| 2.1.3 | The Board of Directors determines the principles of and approaches to the organization of the Risk Management and Internal Control System of the Company. | 1. The Board of Directors has determined the principles of and approaches to the organization of the Risk Management and Internal Control System of the Company.<br>2. The Board of Directors has assessed the Risk Management and Internal Control System of the Company during the reporting period. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.1.4 | The Board of Directors determines the Company's policy on remuneration and/or reimbursement of expenditures (compensations) for the members of the Board of Directors, executive bodies, and other key executives of the Company. | 1. The Company has developed and implemented a policy (policies) on the remuneration and/or reimbursement of expenditures (compensations) for members of the Board of Directors, executive bodies, and other key executives approved by the Board of Directors.<br>2. Issues related to such policy (policies) were examined during the reporting period at the Board of Directors meetings. | **V observed**<br>partially<br>observed<br>not observed | |
| 2.1.5 | The Board of Directors plays a key role in prevention, detection, and resolution of internal conflicts between the Company's bodies, the Company's shareholders, and the Company's employees. | 1. The Board of Directors plays a key role in prevention, detection, and resolution of internal conflicts.<br>2. The Company has created a system for identifying transactions associated with conflicts of interests and a system of measures aimed at resolving such conflicts. | **V observed**<br>partially observed<br>not observed | |
| 2.1.6 | The Board of Directors plays a key role in ensuring the transparency of the Company, timeliness and completeness of the Company's information disclosure, and unhindered shareholder access to the Company's documents. | 1. The Board of Directors has approved the Regulations on Information Policy.<br>2. The Company has defined the persons responsible for implementation of the information policy. | **V observed**<br>partially observed<br>not observed | |
| 2.1.7 | The Board of Directors oversees the Company's corporate governance practice and plays a key role in the Company's significant corporate events. | 1. During the reporting period, the Board of Directors examined the issue of corporate governance practices in the Company. | **V observed**<br>partially observed<br>not observed | |
| 2.2 | The Board of Directors is accountable to the Company's shareholders. | | | |
| 2.2.1 | Information about the operations of the Board of Directors is disclosed and submitted to shareholders. | 1. The Company's Annual Report for the reporting period includes information on attendance of Board and Committee meetings by individual directors.<br>2. The Annual Report contains information on the main results of the assessment of the work of the Board of Directors carried out in the reporting period. | **V observed**<br>partially observed<br>not observed | |
| 2.2.2 | The Chairman of the Board of Directors is available for communication with the Company's shareholders. | 1. The Company has a transparent procedure that enables shareholders to submit questions to the Chairman of the Board of Directors and their own position regarding such questions. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.3 | The Board of Directors is an effective and professional governing body of the Company capable of making objective independent judgments and decisions in the interest of the Company and its shareholders. | | | |
| 2.3.1 | Only persons who have an excellent business and personal reputation as well as knowledge, skills, and experience required to make decisions within the competence of the Board of Directors and necessary for the effective performance of its functions shall be elected as Board of Directors members. | 1. The procedure for assessing the Board of Director's performance adopted by the Company includes, inter alia, the assessment of the professional qualifications of the Board of Directors members.<br>2. During the reporting period, the Board of Directors (or its Nomination Committee) assessed candidates for the Board of Directors from the perspective of whether or not they have sufficient experience, knowledge, business reputation, no conflicts of interest, etc. | **V observed**<br>partially observed<br>not observed | |
| 2.3.2 | The members of the Board of Directors are elected using a transparent procedure that allows shareholders to receive candidate-related information sufficient to provide insight into his/her personal and professional qualities. | 1. In all cases of holding the General Shareholders' Meeting in the reporting period where the agenda included the issue of elections to the Board of Directors, the Company submitted to shareholders biographical data on all candidates for the position, results of the assessment of candidates conducted by the Board of Directors (or the Nomination Committee), and information on a candidate's adherence to the criteria of independence in accordance with recommendations 102 – 107 of the Code, and the written consent of the candidates for election to the Board of Directors. | **V observed**<br>partially observed<br>not observed | |
| 2.3.3 | The composition of the Board of Directors is balanced, inter alia, in terms of qualifications of its members and their experience, knowledge, and business qualities and enjoys the trust of shareholders. | 1. Within the framework of the procedure for the Board of Directors performance assessment held in the reporting period, the Board of Directors has analysed its own needs related to professional qualifications, experience, and business skills. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.3.4 | The number of members of the Board of Directors makes it possible to organise the activities of the Board of Directors in the most efficient manner, including the possibility of the formation of Board committees; it also enables a substantial minority of shareholders of the Company to elect the candidate they vote for to the Board of Directors. | 1. Within the framework of the procedure for the assessment of the Board of Directors held during the reporting period, the Board of Directors has examined the issue concerning whether the number of members of the Board of Directors meets the Company’s needs and shareholder interests. | **V observed**<br><br>partially observed<br><br>not observed | |
| 2.4 | The membership of the Board of Directors includes an adequate number of independent directors. | | | |
| 2.4.1 | An independent director is a person possessing enough professionalism, experience, and independence to form his/her own opinion, and one who is able to express unbiased and scrupulous judgments that are not influenced by the executive bodies of the Company, particular groups of shareholders, or other stakeholders. In addition, it should be noted that a candidate (selected to be a member of the Board of Directors) normally cannot be considered independent if he/she is associated with the Company or a major shareholder, contractor, or competitor thereof or is associated with the state. | 1. During the reporting period, all independent members of the Board of Directors met all independence criteria set forth in recommendations 102 – 107 of the Code or were recognized as independent upon the decision of the Board of Directors. | **V observed**<br><br>partially observed<br><br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.4.2 | An assessment of whether the candidates to the Board of Directors comply with the independence criteria is carried out, and the regular analysis of whether independent members of the Board of Directors comply with the independence criteria is carried out. When carrying out this assessment, substance shall take precedence over form. | 1. During the reporting period, the Board of Directors (or the Nomination Committee of the Board of Directors) has formed an opinion on the independence of each candidate to the Board of Directors and has provided shareholders with a report to that effect.<br>2. During the reporting period, the Board of Directors (or the Nomination Committee of the Board of Directors) has considered the independence of existing members of the Board of Directors whom the Company states in the Annual Report as independent directors at least once.<br><br>3. The Company has developed procedures determining what a member of the Board of Directors must do if they cease to be independent, including the obligation to promptly report the fact to the Board of Directors. | observed<br><br>**V partially observed**<br><br>not observed | Note to para 1 of assessment criteria<br>In the reporting period, each candidate to the Board of Directors suggested for proposal at the Meetings of Shareholders held in the reporting period was analysed for independence criteria specified in recommendations 102–107 of the Code, as well as in recommendations of the Moscow Exchange. However, no conclusions on independency of each candidate to the Board of Directors were submitted to the shareholders as a part of materials for the General Meetings.<br><br>The structural units of the Company involved directly into implementation of the Board of Directors plans relating to the Company's corporate governance improvement seek to maximum achievement of the tasks they are faced. The issuer recognises that such kind of information must be submitted to the shareholders and will take its efforts to follow these recommendations in future.<br><br>Note to para 3 of assessment criteria<br><br>No procedures defining the directors' actions in case of lack of independence, including any obligations on timely addressing the issuer's Board of Directors with these facts, were developed.<br><br>Two independent directors work in the Board of Directors, who comply with all independence criteria specified by the Code and developed by the Moscow Exchange.<br><br>The directors' independence is regularly audited. All independent directors in force are aware of the criteria used to recognise a director as an independent one.<br><br>The Board of Directors has planned development of these procedures for year 2019. |
| 2.4.3 | Independent directors shall make up not less than one-third of the elected membership of the Board of Directors. | 1. Independent directors shall make up not less than one-third of the membership of the Board of Directors. | **V observed**<br><br>partially observed<br><br>not observed | |
| 2.4.4 | Independent directors play a key role in preventing internal conflicts in the Company and carrying out some of the Company's significant corporate actions. | 1. Independent directors (who have no conflicts of interest) pre-evaluate significant corporate actions related to possible conflict of interests and provide the Board of Directors with the results of this evaluation. | **V observed**<br><br>partially observed<br><br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.5 | The Chairman of the Board of Directors shall facilitate the most effective fulfilment of the functions entrusted to the Board of Directors. | | | |
| 2.5.1 | The Chairman of the Board of Directors shall be an independent director, or a Senior Independent Director shall be determined from among the selected independent directors who coordinates the work of the independent directors and cooperates with the Chairman of the Board of Directors. | 1. The Chairman of the Board of Directors is an independent director, or a Senior Independent Director has been determined from among the independent directors.<br>2. The role, rights, and liabilities of the Chairman of the Board of Directors (and the Senior Independent Director, if applicable) are appropriately defined in the internal documents of the Company. | **V observed**<br>partially observed<br>not observed | |
| 2.5.2 | The Chairman of the Board of Directors maintains a constructive atmosphere during meetings, ensures the free discussion of issues on the agenda, and supervises the execution of resolutions adopted by the Board of Directors. | 1. The effectiveness of the Chairman of the Board of Directors has been evaluated within the procedure of evaluation for the Chairman of the Board's effectiveness in the reporting period. | **V observed**<br>partially observed<br>not observed | |
| 2.5.3 | The Chairman of the Board of Directors takes necessary measures to provide the members of the Board of Directors with the necessary information in a timely manner to adopt decisions on agenda items. | 1. The internal documents of the Company establish the obligation of the Chairman of the Board of Directors to take measures to provide the members of the Board of Directors with materials on the agenda items of the Meeting of the Board of Directors in a timely manner. | **V observed**<br>partially observed<br>not observed | |
| 2.6 | The members of the Board of Directors shall reasonably, in good faith, and with due care and discretion perform their duties in the interests of the Company. | | | |
| 2.6.1 | The members of the Board of Directors shall make decisions taking into account all information, having no conflict of interests, and demonstrating equal treatment toward shareholders of the Company within the usual business risks. | 1. The internal documents of the Company establish that the members of the Board of Directors are obligated to notify the Board of Directors if they have a conflict of interest regarding any item on the agenda of the meeting of the Board of Directors or a committee of the Board of Directors before starting discussion on the relevant agenda issue.<br>2. The internal documents of the Company stipulate that the members of the Board of Directors shall abstain from voting on any issue where there is a conflict of interest.<br><br>3. The Company has established a procedure allowing the Board of Directors to obtain professional advice on issues related to its competence at the expense of the Company. | observed<br>**V partially observed**<br>not observed | Note to para 3 of assessment criteria<br>The Company has no procedure allowing the Board of Directors to obtain professional advice on issues related to its competence at the expense of the Company.<br><br>The issuer's management has reviewed an issue of giving the members of the Board of Directors such possibility. On the current stage, the Company is not planning to include the professional advice on issues related to the Board of Directors competence into expenditures, since it is considered that the competence of the existing members of the Board of Directors is at the level sufficient for taking professional decisions on their duties.<br><br>At all accounts, the members of the Board of Directors have business contacts which are useful for obtaining advice from their business partners. |
| 2.6.2 | The internal documents of the Company establish and clearly set forth the rights and obligations of the members of the Board of Directors. | 1. The Company has adopted and released an internal document that clearly defines rights and obligations of the members of the Board of Directors. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.6.3 | The members of the Board of Directors have enough time to fulfil their obligations. | 1. Individual attendance at the meetings of the Board and committees and the time allocated for the preparation to attendance at the meetings have been taken into account as part of the procedure of evaluation for the Board of Directors in the reporting period.<br>2. In accordance with the internal documents of the Company, members of the Board of Directors are obligated to notify the Board of Directors of their intention to be a member of the governing bodies of other entities (besides subsidiaries and dependent entities of the Company) and of the fact of such an appointment. | **V observed**<br>partially observed<br>not observed | |
| 2.6.4 | All members of the Board of Directors have equal opportunities to access the documents and information of the Company. Newly elected members of the Board of Directors are provided with sufficient information about the Company and the activities of the Board of Directors within the shortest time possible. | 1. In accordance with the internal documents of the Company, members of the Board of Directors have a right to obtain access to documents and to make a request concerning the Company and its subsidiaries; the executive bodies of the Company are obligated to provide the relevant information and documents.<br>2. The Company has a formal program of informational meetings for newly elected members of the Board of Directors. | observed<br>**V partially observed**<br>not observed | Note to para 2 of assessment criteria<br>The Company has no formal program of informational meetings for newly elected members of the Board of Directors.<br><br>In the effective Regulations on the Board of Directors of Evropeyskaya Elektrotekhnica all the procedures relating to the duties execution of the Board members are specified. The effective Regulations on the Board of Directors Committees also specify rights, duties, and obligations of the committees' members. These internal documents contain the list of issuer's data being accessible only for the Board of Directors' members. The internal documents of the Company allow for understanding the particular unit work specifics and receiving all required information for this work.<br><br>The most part of the Board of Directors is the employees of the issuer and its affiliates, which have been working at Evropeyskaya Elektrotekhnica Group of Company since its foundation. Absence of a formal program of informational meetings has had no effect on involving the independent directors elected to the Board into work. Due to an atmosphere of support and mutual assistance, the independent directors managed to quickly adopt to specifics of the Board work and arrange their efficient activities.<br><br>In 2018, the Board of Directors has planned development of these procedures for year 2019. |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.7 | The Meeting of the Board of Directors, the preparation for it, and the participation of the members of the Board of Directors in it shall ensure the effective operation of the Board of Directors. | | | |
| 2.7.1 | The Meetings of the Board of Directors are held as required, taking into account the scale of activities and challenges the Company faces at the time. | 1. The Board of Directors held at least six meetings in the reporting year. | **V observed**<br>partially observed<br>not observed | |
| 2.7.2 | The internal documents of the Company establish the procedure for preparing and conducting meetings of the Board of Directors and give an opportunity for the members of the Board of Directors to properly prepare for them. | 1. The Company has approved an internal document defining the procedure for preparing and conducting meetings of the Board of Directors, which also establishes that notice of the meeting shall be given no less than 5 days before the date of the meeting. | **V observed**<br>partially observed<br>not observed | |
| 2.7.3 | The form of the meeting of the Board of Directors is determined based on the importance of the agenda items. The most important issues are solved at meetings held by personal attendance. | 1. The Charter or internal documents of the Company stipulate that the most important issues (according to the list provided in recommendation 168 of the Code) shall be considered at the Board meetings held by personal attendance. | **V observed**<br>partially observed<br>not observed | |
| 2.7.4 | Resolutions on the most important issues of the Company's activities are adopted at a meeting of the Board of Directors by a qualified majority or a majority of votes of all elected members of the Board of Directors. | 1. The Charter of the Company stipulates that resolutions on the most important issues stated in recommendation 170 of the Code shall be adopted at a meeting of the Board of Directors by a qualified majority (no less than three-quarters of the votes) or a majority of votes of all elected members of the Board of Directors. | **V observed**<br>partially observed<br>not observed | |
| 2.8 | The Board of Directors shall establish committees for preliminary consideration of the most important issues of the Company's activities. | | | |
| 2.8.1 | An Audit Committee consisting of independent directors has been created for the preliminary consideration of issues related to supervision of the financial and economic activities of the Company. | 1. The Board of Directors has established an Audit Committee consisting solely of independent directors.<br>2. The internal documents of the Company determine the objectives of the Audit Committee, including objectives from recommendation 172 of the Code.<br>3. At least one member of the Audit Committee who is an independent director has experience and knowledge in preparation, analysis, assessment, and audit of accounting (financial) reports.<br>4. Meetings of the Audit Committee were held at least once a quarter during the reporting period. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.8.2 | A Remuneration Committee, consisting of independent directors and headed by an independent director (not the Chairman of the Board of Directors), has been created for the preliminary consideration of issues related to development of effective and transparent practices of remuneration. | 1. The Board of Directors has established a Remuneration Committee that consists only of independent directors.<br>2. The Chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors.<br>3. The internal documents of the Company define the objectives of the Remuneration Committee, including objectives from recommendation 180 of the Code. | **V observed**<br>partially observed<br>not observed | |
| 2.8.3 | A Nomination (HR) Committee, mostly composed of independent directors, has been created for preliminary consideration of issues related to staff planning (succession planning), occupational structure, and the performance of the Board of Directors. | 1. The Board of Directors has established a Nomination Committee (or its objectives as stated in recommendation 186 of the Code are carried out by another Committee), mostly composed of independent directors.<br>2. The internal documents of the Company determine the objectives of the Nomination Committee (or the respective Committee with combined functions), including objectives from recommendation 186 of the Code. | **V observed**<br>partially observed<br>not observed | |
| 2.8.4 | Taking into account the scale of activities and the risk level, the Board of Directors has ascertained that the members of its committees fully comply with the goals of the Company's activities. Additional committees have been either created or deemed unnecessary (Strategy Committee, corporate governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.). | 1. During the reporting period, the Board of Directors of the Company considered the issue of the committees members compliance with the objectives of the Board of Directors and the goals of the Company's activities. Additional committees have been either created or deemed unnecessary. | **V observed**<br>partially observed<br>not observed | |
| 2.8.5 | The composition of the committees is determined such as to allow comprehensive discussion of preliminarily considered issues, taking into account all different opinions. | 1. The committees of the Board of Directors shall be headed by independent directors.<br>2. The internal documents (policies) of the Company include provisions under which persons who are not members of the Audit Committee, the Nomination Committee, or the Remuneration Committee can attend committee meetings only on invitation of the Chairman of the committee in question. | **V observed**<br>partially observed<br>not observed | |
| 2.8.6 | Chairmen shall regularly inform the Board of Directors and its Chairman on the activities of their committees. | 1. During the reporting period, the chairmen shall regularly report on the activities of their committees to the Board of Directors. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 2.9 | The Board of Directors shall provide a quality assessment of the activities of the Board of Directors along with its Committees and members. | | | |
| 2.9.1 | The quality assessment of the activities of the Board of Directors aims to define the performance of the Board of Directors, committees, and members of the Board of Directors and the compliance of their activities with the developmental needs of the Company, as well as to intensify the activities of the Board of Directors on detecting the areas where such activities may be improved. | 1. Self-assessment or external assessment of the Board of Directors conducted during the reporting period included a performance assessment of committees, members of the Board of Directors, and the Board of Directors as a whole.<br>2. The results of self-assessment or external assessment of the Board of Directors conducted during the reporting period were reviewed at the meeting of the Board of Directors. | **V observed**<br>partially observed<br>not observed | |
| 2.9.2 | Performance of the Board of Directors and the committees and the members of the Board of Directors shall be assessed regularly at least once annually. A third-party organization (consultant) shall be engaged to conduct an independent performance assessment of the Board of Directors at least once every three years. | 1. To conduct an independent performance assessment of the Board of Directors, the Company engaged a third-party organization (consultant) at least once in the last three reporting periods. | observed<br>partially observed<br>**V not observed** | Note to para 1 of assessment criteria<br>No independent performance assessment of the Board of Directors was conducted in the reporting period.<br>The Code recommends to conduct the assessment at least once per three years.<br>The year 2018 was the third year of the Board of Directors work as a Company's governing body. It is planned to conduct independent performance assessment of the Board of Directors in 2019. |
| 3.1 | The Corporate Secretary of the Company shall ensure current effective interaction with shareholders and the coordination of Company activities to protect the rights and interests of its shareholders as well as provide support for the effective performance of the Board of Directors. | | | |
| 3.1.1 | The Corporate Secretary shall have sufficient knowledge, experience, qualifications to perform the obligations imposed on them, an impeccable reputation and also enjoy the confidence of shareholders. | 1. The Company has adopted and disclosed an internal document, the Regulations on the Corporate Secretary.<br>2. The Company website and the Annual Report shall contain the biography of the Corporate Secretary with the same level of detail as that of the members of the Board of Directors and the executive management of the Company. | **V observed**<br>partially observed<br>not observed | |
| 3.1.2 | The Corporate Secretary shall have sufficient independence from executive bodies of the Company, as well as have authorities and resources required to perform their tasks. | 1. The Board of Directors shall approve assignment, dismissal, and additional remuneration for the Corporate Secretary. | **V observed**<br>partially observed<br>not observed | |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 4.1 | The amount of remuneration paid by the Company shall be sufficient to engage, motivate, and retain persons with the competencies and skills necessary for the Company. Members of the Board of Directors, executive bodies, and other key executives of the Company shall be remunerated in accordance with the remuneration policy accepted in the Company. | | | |
| 4.1.1 | The amount of remuneration paid by the Company to the members of the Board of Directors, executive bodies, and other key managers shall create sufficient motivation for them to work effectively, thus allowing the Company to attract and retain competent and qualified specialists. At the same time, the Company avoids remuneration exceeding the necessary level as well as an unreasonably large gap between the remuneration amounts of said managers and the employees of the Company. | 1. The Company has adopted an internal document (documents) or a remuneration policy (policies) for the members of the Board of Directors, the executive bodies, and other key executives that clearly defines approaches to the remuneration for said officers. | **V observed**<br>partially observed<br>not observed | |
| 4.1.2 | The remuneration policy of the Company was drafted by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, assisted by the Remuneration Committee, shall provide supervision over introduction and implementation of the remuneration policy and, if needed, review and make amendments thereto. | 1. During the reporting period, the Remuneration Committee considered the remuneration policy (policies) and implementation practices and submitted appropriate recommendations to the Board of Directors where applicable. | **V observed**<br>partially observed<br>not observed | |
| 4.1.3 | The Company's Remuneration Policy contains transparent mechanisms for determining the amount of remuneration for members of the Board of Directors, executive bodies, and for other key executives of the Company and also regulates all payments, benefits, and privileges provided to the officials mentioned above. | 1. The Company's Remuneration Policy (policies) contain(s) transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, the executive bodies, and other key executives of the Company and also regulate(s) all payments, benefits, and privileges provided to the officials mentioned above. | **V observed**<br>partially observed<br>not observed | |
| 4.1.4 | The Company shall define its reimbursement (compensation) policy specifying the list of expenses subject to compensation and the service level to which the members of the Board of Directors, the executive bodies, and other key managers of the Company are entitled. Such policy may be a part of the Company's Remuneration Policy. | 1. The Company's Remuneration Policy (policies) or other internal documents establish(es) the compensation rules for the members of the Board of Directors, the executive bodies, and for other key executives of the Company. | **V observed**<br>partially observed<br>not observed | |
| 4.2 | The system for remuneration for the members of the Board of Directors shall ensure that the financial interests of the directors are brought closer to the long-term financial interests of the shareholders. | | | |
| 4.2.1 | The Company shall pay fixed annual remuneration to the members of the Board of Directors. The Company shall not pay remuneration for participation in individual meetings of the Board of Directors or committees thereof.<br>The Company shall not use short-term motivation or additional material incentives in relation to the members of the Board of Directors. | 1. Fixed annual remuneration was the only monetary remuneration provided to members of the Board of Directors for their activities therein during the reporting period. | **V observed**<br>partially observed<br>not observed | |
| 4.2.2 | Long-term possession of shares best facilitates bringing the financial interests of the directors closer to the long-term financial interests of the shareholders. At the same time, the Company shall not attach the condition of achievement of a certain level of performance to the right to sell shares, and the members of the Board of Directors shall not participate in option programs. | 1. If the internal document(s) on the Remuneration Policy (policies) stipulate(s) provision of the Company's shares to the members of the Board of Directors, the Company shall set forth and disclose clear rules for shareholding by the members of the Board of Directors aimed at encouraging long-term possession of such shares. | observed<br>partially observed<br>**V not observed** | Note to para 1 of assessment criteria<br>Not applicable for the Company. |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 4.2.3 | The Company shall not provide any additional payments or compensations in case of early termination of powers of the members of the Board of Directors due to a change of control over the Company or other circumstances. | 1. The Company shall not provide any additional payments or compensations in case of early termination of powers of members of the Board of Directors due to a change of control over the Company or other circumstances. | **V observed**<br>partially observed<br>not observed | |
| 4.3 | The system for remuneration for the members of executive bodies and other key executives of the Company shall provide for the dependence of the amount of remuneration on the performance results of the Company and their personal contribution to achieving these results. | | | |
| 4.3.1 | Remuneration for the members of executive bodies and other key executives shall be determined in such a way as to ensure a reasonable and justified ratio between the fixed part of remuneration and the variable part thereof, which depends on the Company performance results and the personal (individual) contribution of an employee to the final result. | 1. During the reporting period, annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration for the members of executive bodies and other key executives.<br>2. In the course of the last assessment of the remuneration system for the members of executive bodies and other key executives, the Board of Directors (Remuneration Committee) ascertained that the Company uses an effective ratio between the fixed and variable parts of remuneration.<br>3. The Company applies a procedure that ensures the return of bonuses wrongly obtained by the members of executive bodies and other key executives. | observed<br>**V partially observed**<br>not observed | Note to para 3 of assessment criteria<br>The Company applies no procedure that ensures the return of bonuses wrongly obtained by the members of executive bodies and other key executives.<br>The procedure of bonuses payment for the executive bodies and other key executives of Evropeyskaya Elektrotekhnica implies multi-stage agreement with different structural units of the issuer and the Board of Directors.<br>The measures taken by the issuer to agree the bonuses nullify possible risks of circumstances allowing to obtain such bonuses illegally. Therefore, the issuer considers development of procedures to return illegal bonuses from the executive bodies and other key executives of the Company to be inexpedient. |

| No. | Corporate Governance Principles | Criteria for assessing compliance with corporate governance principles | Status of compliance with corporate governance principles | Explanations for deviations from the criteria for assessing compliance with corporate governance principles |
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| 4.3.2 | The Company has implemented a long-term incentive program for the members of executive bodies and other key executives using Company shares (options or other derivative financial instruments whose underlying asset is Company shares). | 1. The Company has implemented a long-term incentive program for the members of executive bodies and other key executives using Company shares (financial instruments based on Company shares).<br>2. The long-term incentive program for the members of executive bodies and other key executives stipulates that the right to sell the shares or other financial instruments used in such program may be exercised not earlier than three years from the provision thereof. At the same time, the right to sell them is conditional upon the Company's achievement of certain performance indicators. | observed<br>partially observed<br>**V not observed** | Note to para 1, 2 of assessment criteria<br>The Company has no long-term incentive program for the members of executive bodies and other key executives using Company shares (financial instruments based on Company shares).<br><br>Considering the scale of the Company's activities, a number of the Board of Directors members, and a number of independent directors, the issuer sees no reason to create the program on this stage of the Company's development. |
| 4.3.3 | The amount of compensation (a golden parachute) paid to the members of executive bodies or key executives in case of early termination of their powers at the initiative of the Company, provided there have been no unethical acts on the part of the officials mentioned, shall not exceed double the amount of the fixed part of their annual remuneration. | 1. The amount of compensation (a golden parachute) paid to the members of executive bodies or key executives during the reporting period in case of early termination of their powers at the initiative of the Company, provided there have been no unethical acts on the part of the officials mentioned, did not exceed double the amount of the fixed part of their annual remuneration. | **V observed**<br>partially observed<br>not observed | |
| 5.1 | The Company has established an effective Risk Management and Internal Control System aimed at providing reasonable confidence in achieving the objectives set by the Company. | | | |
| 5.1.1 | The Board of Directors has defined principles and approaches to the organization of Risk Management and Internal Control System in the Company. | 1. The functions of the Company's various governing bodies and units in the Risk Management and Internal Control System have been clearly defined in the internal documents/relevant policy approved by the Board of Directors. | **V observed**<br>partially observed<br>not observed | |
| 5.1.2 | The executive bodies of the Company shall ensure creation and maintenance of an effective Risk Management and Internal Control System. | 1. The executive bodies of the Company have ensured the distribution of functions and powers for risk management and internal control between subordinate managers (heads) of units and departments. | **V observed**<br>partially observed<br>not observed | |

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| 5.1.3 | The Risk Management and Internal Control System of the Company shall ensure an objective, fair and clear vision of the current condition and perspectives of the Company, reporting integrity and transparency, and the reasonableness and acceptability of the risks accepted by the Company. | 1. The Company has approved an anticorruption policy.<br>2. The Company has established an accessible means of informing the Board of Directors or the Audit Committee thereof about violations of the law, internal procedures, or the Code of Ethics of the Company. | **V observed**<br>partially observed<br>not observed | |
| 5.1.4 | The Board of Directors of the Company shall take the measures necessary to ensure that the current Risk Management and Internal Control System complies with the organizational principles and approaches defined by the Board of Directors and functions effectively. | 1. During the reporting period, the Board of Directors or the Audit Committee thereof has assessed the effectiveness of the Risk Management and Internal Control System applied in the Company. Information on the main results of such assessment has been included in the Annual Report. | **V observed**<br>partially observed<br>not observed | |
| 5.2 | To conduct a systematic independent assessment of reliability and effectiveness of the Risk Management and Internal Control System and corporate governance practices, the Company shall arrange for internal auditing. | | | |
| 5.2.1 | To conduct internal auditing, the Company has established a separate structural unit or engaged an independent external organization. The functional and administrative accountability of the internal audit unit shall be clearly delineated. The internal audit unit shall functionally report to the Board of Directors. | 1. To conduct internal auditing, the Company has established a separate structural unit functionally subordinated to the Board of Directors or the Audit Committee or engaged an independent external organization following the same accountability principle. | **V observed**<br>partially observed<br>not observed | |
| 5.2.2 | The internal audit unit shall conduct an assessment of effectiveness of the Internal Control System, the Risk Management System, and the Corporate Governance System. The Company shall apply generally accepted internal auditing standards. | 1. During the reporting period, an internal audit provided an assessment of the effectiveness of the internal control and Risk Management System.<br>2. The Company uses generally accepted approaches to internal control and risk management. | **V observed**<br>partially observed<br>not observed | |
| 6.1 | The Company and its activities are transparent to the shareholders, the investors, and other stakeholders. | | | |
| 6.1.1 | The Company has elaborated and introduced an information policy that ensures effective information exchange between the Company, shareholders, investors, and other stakeholders. | 1. The Board of Directors of the Company has approved an information policy based on the Code's recommendations.<br>2. The Board of Directors (or one of its committees) considered issues related to the Company's compliance with its information policy at least once during the reporting period. | **V observed**<br>partially observed<br>not observed | |
| 6.1.2 | The Company discloses information on the system and practice of corporate governance, including detailed information on compliance with the principles and recommendations set forth in the Code. | 1. The Company discloses information on its Corporate Governance System and the general principles of corporate governance applied in the Company, including on its website.<br>2. The Company discloses information on the membership of executive bodies and the Board of Directors, the independence of the members of the Board, and their membership in committees of the Board of Directors (as defined in the Code ).<br>3. If there is an entity that controls the Company, the latter shall publish a memorandum of the controlling entity on the plans of such entity related to corporate governance in the Company. | **V observed**<br>partially observed<br>not observed | |

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| 6.2 | The Company shall disclose full, relevant, and reliable information on the Company in a timely manner to provide the shareholders and the investors of the Company with an opportunity to make sound decisions. | | | |
| 6.2.1 | The Company shall disclose information in accordance with the principles of regularity, consistency, and promptness as well as the accessibility, reliability, fullness, and comparability of the data disclosed. | 1. The information policy of the Company shall define approaches and criteria for defining information that can significantly influence the assessment of the Company and the cost of its securities as well as procedures for ensuring the timely disclosure of such information.<br>2. If the securities of the Company are traded in foreign organized markets, essential information shall be disclosed simultaneously and equivalently in Russia and in such markets during the reporting year.<br>3. If foreign shareholders hold a significant number of the Company's shares, during the reporting period information was disclosed both in Russian and in one of the most widespread foreign languages. | **V observed**<br>partially observed<br>not observed | |
| 6.2.2 | The Company avoids a formal approach to information disclosure and divulges essential information on its activities even if the disclosure of such information is not stipulated by the law. | 1. During the reporting period, the Company disclosed annual and semiannual financial statements prepared as per IFRS. The Annual Report for the reporting period includes summarized consolidated financial statements prepared as per audited consolidated financial statements along with the independent auditor's report.<br>2. The Company discloses full information on the capital structure as per Recommendation 290 of the Code both in the Annual Report and on its website. | **V observed**<br>partially observed<br>not observed | |
| 6.2.3 | The Annual Report, as one of the most important instruments of information exchange with shareholders and other stakeholders, shall contain information making it possible to evaluate the results of the Company's activities for the year. | 1. The Annual Report of the Company contains information about the key aspects of its operations and financial results.<br>2. The Annual Report contains information about environmental and social aspects of the Company's activities. | **V observed**<br>partially observed<br>not observed | |
| 6.3 | The Company provides information and documents at the request of shareholders in accordance with the principles of equal and unhindered access. | | | |
| 6.3.1 | Provision of information and documents by the Company at the request of shareholders in accordance with the principles of equal and unhindered access. | 1. The Company's information policy defines the procedure for providing shareholders with unhindered access to information, including information about controlled legal entities, at the shareholders' request. | **V observed**<br>partially observed<br>not observed | |
| 6.3.2 | Provision of information to shareholders ensures a reasonable balance between the interests of certain shareholders and the interests of the Company itself, which is concerned with the confidentiality of important-commercial information that could significantly influence its competitiveness. | 1. During the reporting period, the Company did not refuse to satisfy shareholders' information requests, or such refusals were reasonable.<br>2. In cases defined by the Company's Information Policy, shareholders are informed about the confidential nature of information and undertake to keep it in secret. | **V observed**<br>partially observed<br>not observed<br>not complied with | |

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| 7.1 | Actions that significantly impact or could significantly impact the share capital structure and financial state of the Company and, consequently, the position of the shareholders (significant corporate actions), shall be taken in a fair manner, ensuring the observation of the rights and interests of the shareholders and other stakeholders. | | | |
| 7.1.1 | Reorganization of the Company, purchase of 30 percent or more of its voting shares (takeover), performance of significant transactions, an increase or decrease in the Company's share capital, listing or delisting of shares, and other actions that could result in significant changes to the shareholders' rights or violations of their interests shall be deemed significant corporate actions. The Charter of the Company defines the list (criteria) of transactions or other actions that are significant corporate actions, and such matters are reserved to the Board of Directors of the Company. | 1. The Charter of the Company defines the list of transactions or other actions that are significant corporate actions and the criteria for defining such actions. Making decisions on significant corporate actions is reserved to the competence of the Board of Directors. In cases when such corporate actions are expressly reserved by the law to the competence of the General Meeting of Shareholders, the Board of Directors shall provide shareholders with appropriate recommendations.<br>2. The Charter of the Company deems at least the following actions to be significant corporate actions: reorganization of the Company, purchase of 30 percent or more of its voting shares (takeover), performance of significant transactions by the Company, an increase or decrease in the Company's share capital, and listing and delisting of its shares. | **V observed**<br>partially observed<br>not observed | |
| 7.1.2 | The Board of Directors plays a key role in decision making or preparation of recommendations on significant corporate actions; the Board of Directors relies on the position of the Company's independent directors. | 1. The Company provides for a procedure for the independent directors to declare their position on significant corporate actions before the approval thereof. | **V observed**<br>partially observed<br>not observed | |
| 7.1.3 | When performing significant corporate actions relating to the rights and legal interests of shareholders, the Company ensures equal terms for all the shareholders of the Company, and if legislation provides insufficient mechanisms for the protection of shareholders' rights, the Company shall take additional measures to protect rights and legal interests of its shareholders. In this case, the Company relies both on compliance with the formal requirements of the law and the principles of corporate governance set forth in the Code . | 1. Considering particular aspects of the Company's activities, the Charter determines criteria for classifying the Company's transactions as significant corporate transactions that are lower than the minimal criteria determined by the law.<br>2. During the reporting period, all significant corporate actions underwent the approval procedure before they were taken. | **V observed**<br>partially observed<br>not observed | |
| 7.2 | The Company ensures a procedure for taking significant corporate actions that enables shareholders to obtain full information on such actions in a timely manner, provides them with an opportunity to influence such actions, and guarantees observation and adequate protection of their rights when such actions are taken. | | | |
| 7.2.1 | Information on significant corporate actions includes the reasons, the conditions, and the results of such actions. | 1. During the reporting period, the Company promptly disclosed detailed information on its significant corporate actions, including the grounds and terms thereof. | **V observed**<br>partially observed<br>not observed | |

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| 7.2.2 | Rules and procedures related to significant corporate actions taken by the Company are defined in its internal documents. | 1. The internal documents of the Company stipulate the procedure for engagement of an independent appraiser to determine the value of property alienated or acquired under a major transaction or a related party transaction. | observed<br><br>partially observed<br><br>**V not observed** | Note to para 1 of assessment criteria<br>The internal documents of the Company do not stipulate the procedure for engagement of an independent appraiser to determine the value of property alienated or acquired under a major transaction or a related party transaction.<br><br>In all cases of property disposal or purchase under above said transactions in the reporting and previous years, the issuer engaged an independent appraiser. The issuer fully complies with the laws relating to evaluation of property being disposed or acquired by transactions.<br><br>The issuer recognises its responsibility to the shareholders for funds expenditure and purchase/disposal of the Company's property, including the above said transactions, and strictly observes the shareholders' interests. The omission of the requirements specified by this paragraph in the internal documents cannot affect the observance of the law by the issuer.<br><br>Note to para 2 of assessment criteria<br><br>The internal documents of the Company stipulate the procedure for engagement of an independent appraiser to determine the value of share purchase and repurchase.<br><br>The obligation of Joint-Stock Companies on engagement of an independent appraiser to determine the value of share purchase and repurchase are stipulated by the Russian Federation legislation. In all such matters the issuer follows the legislation in force. The omission of the requirements specified by this paragraph in the internal documents cannot affect the observance of the law by the issuer.<br><br>Note to para 3 of assessment criteria<br><br>The Company's internal documents do not stipulate an extended list of grounds for deeming the members of its Board of Directors and other persons specified by the law to be parties related to the Company's transactions.<br><br>Any actions being planned by the Company are evaluated to find any conflict of interest. The members of the Board of Directors shall refrain from actions, which lead or can lead to a conflict of interest, and inform the Board of Directors on such conflict occurring. The issuer considers that it is not required to extend the list of grounds for deeming the members of its Board of Directors and other persons specified by the law to be parties related to the Company's transactions. Number of transactions being conducted by the Company and the transactions control by the issuer's governing bodies do not provoke any situations when private interests of the members of the Board of Directors or other parties mentioned by the law can compete with the issuer's interests. |

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## OUR PRESENCE

in the Russian Federation:

- St. Petersburg
- Moscow
- Lipetsk
- Krasnodar
- Tolyatti
- Samara
- Orenburg
- Kazan
- Ufa
- Tyumen
- Krasnoyarsk
- Nefteyugansk
- Irkutsk
- Novosibirsk
- Blagoveshchensk

in other countries:

- Astana (Kazakhstan)
- Baku (Azerbaijan)
- Rabat (Morocco)