Evropeyskaya Elektrotekhnica

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of Shareholders 08 June 2018
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The reliability of the data contained
in the Annual Report is confirmed
by the Company's Auditor

ANNUAL REPORT

Public Joint-Stock Company Evropeyskaya Elektrotekhnica

CEO

(signature) / I.A. Kalenkov

Chief Accountant

(signature) / M.V. Baskova

2018

Ilya Kalenkov
CEO

Evropeyskaya Elektrotekhnica is a leading Russian supplier of electric power supply, lighting and low-current systems for a wide range of applications. The Company offers innovative power supply and energy saving solutions designed for complex industrial facilities.

Our efforts are focused on increasing the value of the Company at every business stage, and the pages of this Report detail our plans and commitment to an innovative approach, development of our own production capacity, consistent implementation of the strategy and increasing operational efficiency.

Supporting the Company's leading positions in the industry, we remain confident that we will continue to increase shareholder value and follow the path of sustainable business development.

For more detailed information visit the Company's website
http://euroetpao.ru/

About the report

The annual report of Evropeyskaya Elektrotekhnica for 2017 covers the results of the Company's activities for the reporting year. The purpose of the Report is to provide comprehensive information on key performance indicators of the Company over the past period, the main activities, the business model and the development strategy of Evropeyskaya Elektrotekhnica, through which results are achieved and efficiency is improved in the Company's strategic directions. The Annual Report presents the results of the implementation of short-term and long-term plans as well as the results of the corporate governance system and activities related to sustainable development. The Concept of the Report was supplemented and updated in accordance with Russian and international legislation and the best world practices.

Disclosure of information in the annual report of Evropeyskaya Elektrotekhnica is also regulated by a number of internal corporate policies, regulations and standards of the Company's functional divisions. The list of internal regulatory documents is presented in Appendix 1.

We work in the market of strategically important, complex industrial, architectural, infrastructure objects. A significant part of our facilities are unique, we are constantly searching for ideas, solutions, creating innovations and replicating them. Over 500 innovative projects at different stages of implementation are always in the focus of our attention.

We have created and implemented technologies for selecting and developing young talents as well as technologies for preserving and transferring experience and knowledge.

We develop a network of engineering centers in Russia and abroad in geographic proximity to potential customers.

Since inception, the Company has relied on internal sources to fund growth. We adhere to the principles of strict financial discipline as well as the high-quality and timely implementation of commitments.

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Company information

Evropeyskaya Elektrotekhnica

About Us

14 years Strong track record of working with leading Russian companies

150 professionals
Balanced team of experts

500 large-scale projects
Implemented in Russia and the CIS

>1000 clients
From more than 20 industries

10 offices
In the largest cities of Russia and the CIS

13 In-house engineering centers in Russia

2595 million rubles
Company's revenue in 2017

371 million rubles
EBITDA of the Company in 2017

Operating geography

Our offices and engineering centers: Moscow, St. Petersburg, Kazan, Ufa, Samara, Krasnoyarsk, Krasnodar, Tyumen, Astana, Novosibirsk.

Wide geography – suppliers from 21 countries around the world.

Customers of Evropeyskaya Elektrotekhnica are the largest Russian companies representing a wide range of industries – from telecommunications and banking to construction, transport, mining and processing industries.

Key indicators and events for 2017

For the Company and the market

- The Company got new large customers, including foreign companies.
- In-house production capacities are expanded.
- Successful regional expansion – 4 engineering centers were opened in 2017, including in Russia – in Krasnoyarsk, Krasnodar, Tyumen.

For our customers, partners and suppliers

- 520 projects were successfully implemented during the year.
- New product groups were launched.
- More than 30 different certificates collected.
- Rating agency RAEX (Expert RA) assigned a 'ruB' corporate credit rating to the Company with a stable outlook.

For investors

- In August, the Company successfully held an IPO on the Moscow stock exchange, the share of free float shares is 5%
- In September the dividend policy of the Company was approved.
- High operating and financial results were achieved at the end of the year.
- The Company's strategic development program until 2021 was launched.
- Focus on improving transparency and quality of corporate governance.

Strategic report

Evropeyskaya Elektrotekhnica

Message from CEO

On behalf of the management of Evropeyskaya Elektrotekhnica, I am pleased to report that the Company improved operating and financial performance in 2017, and made significant progress in achieving the strategic goals necessary for further sustainable development.

Initial Public Offering

First and foremost, we completed a successful IPO on Moscow Exchange following the decision to float announced back in 2016. This marked a new chapter in the Company's history. In just 14 years, our Company has transformed from a small-scale trading business into a leading market player with complete in-house design and production capabilities. Going public is the next targeted step towards unleashing the Company's strong growth potential, strengthening our leadership and delivering on our development strategy. We focus on creating shareholder value, developing a strong corporate governance system, increasing the liquidity of our shares, regular and fair dividend payments, and maintaining open and transparent relations with investors. We highly appreciate the interest and trust of investors in our Company, which was directly reflected in the growth of the Company's capitalization – it amounted to more than 40% since the start of trading on the stock exchange.

Operating and financial results

In 2017, the Company delivered strong operating results while also expanding its in-house production capacities, acquiring new customers, including foreign ones, and launching new product groups. In addition, the Company successfully continued its regional expansion, opening 4 engineering centers this year.

Over the past year, more than 520 projects of various degrees of complexity have been implemented. It is important to note that the Company continued its work on portfolio diversification and development of new lines of business. In particular, Evropeyskaya Elektrotekhnica took part in the development of resource fields of the Power of Siberia gas pipeline and the construction of the Yamal LNG plant. Another achievement for the year is the volume of our own production that approached the level of 1 billion rubles, showing an annual growth of 60%.

The year 2017 was the record year in the history of Evropeyskaya Elektrotekhnica in terms of operating and net profit: 307 and 135 million rubles respectively. Due to the dynamic growth of profit, the Company became one of the best performing issuers on the Russian stock market in 2017. This achievement is even more remarkable as the Company is a non-commodity player engaged in industrial engineering.

In 2017, the Company changed its approach to the formation of project portfolio, so that we will be able to cut low-margin projects and focus on high-margin areas and projects. The change in approach had a one-time effect on revenues, which by the end of the year amounted to 2,595 million rubles. We saw the return from this transition already in 2017 in the form of a significant decrease in costs and net profit growth of 3.3 times – from 42 million rubles to 135 million rubles. Thanks to this, a solid basis for payment of dividends to our shareholders and the creation of an attractive dividend history is formed. As a confirmation of my words, the first dividend payouts are expected less than 11 months after the IPO.

Strategy-2021

Another important event of the past year was a summary of the implementation of the development strategy designed until 2017. In addition to preparing a solid foundation for conducting the IPO, the launch of our own substation production, the creation of turnkey energy supply systems, the beginning of regional expansion, the first experience of international cooperation have been among the results of the work during recent years.

We set ourselves no less ambitious strategic priorities until 2021, which will focus on the growth of profitability of the project portfolio, strengthening leadership by creating organic and inorganic growth projects, maximizing returns for shareholders and improving the quality of corporate governance. As mentioned above, successful placement of shares opened a new page in the history of our Company's development, confirmed the correctness of the chosen course and allowed us to attract the necessary funds for the implementation of the plan.

Forecasts

According to our plans for 2018, we expect to receive revenues in the range of 3,500 – 4,000 million rubles and net profit of more than 350 million rubles. The company intends to open 3 more engineering centers. In addition, in 2018 a research and production company was opened to produce oilfield equipment, which will allow Evropeyskaya Elektrotekhnica to expand and significantly strengthen its positions in the fuel and energy industry of the Russian economy and enter the oil market of other oil-producing countries.

Thanks

The results achieved by us in 2017 would be impossible without our employees and their dedication throughout the year. I would like to express my gratitude to them for their efficient work, commitment to the Company's policy and contribution to its development. Their support and involvement are key factors for achieving new goals, not only in 2018, but also in subsequent years.

Our strategy

Improvement of the project portfolio profitability

Strategic priorities	• Building a portfolio of projects focused on high-margin segments. • Cutting of low-margin positions.
Achievements in 2017	• The Company has successfully changed the approach to the formation of the project portfolio. • The diversification of the project portfolio has increased, while its efficiency was improved. • Net profit for 2017 increased by 3.3 times to 135 million rubles.
Goals for 2018	• Expansion of the geography of orders, development of new profitable lines of business and formation of a portfolio of orders, with strict adherence to the approved principles. • Increase in net profit in 2018 of more than 350 million rubles.
Risks for the strategy	• Project risks . • Logistics risks. • Price, currency and inflation risks.

Strengthening leadership through organic growth

Strategic priorities	• Expansion of the network of engineering centers. • Launch of new products. • Expansion of sales network, entry to the global markets for the provision of integrated services. • Further development of R&D potential.
Achievements in 2017	• In 2017, four engineering centers were opened (including in Russia – in Krasnoyarsk, Krasnodar and Tyumen). • New product groups – medium voltage cells, LED lamps for greenhouses, new types of cable and wire products. • Geography of customers significantly expanded in 2017. • Company's expenditure on R&D in 2017 amounted to more than 30 million rubles.
Goals for 2018	• Opening of 3 engineering centers. • Further expansion of the product line due to our own production base and supply of electrical equipment. • The Company estimates that R&D costs in 2018 will be about 100 million rubles.
Risks for the strategy	• Liquidity risk. • Country and political risks. • Personnel risks.

Participation in the import substitution program

Strategic priorities	• Development of in-house production and scientific potential.
Achievements in 2017	• Throughout the year the Company successfully competed with foreign producers, including outside the Russian Federation. • The share of exports in the revenue structure by the end of the year reached 10%.
Goals for 2018	• The Company plans to increase participation in the import substitution program, offering a wider range of services and solutions.
Risks for the strategy	• Liquidity risk. • Compliance risks. • Project risks.

Constant attention to corporate governance

Strategic priorities	• Compliance of the Company's activities with mandatory standards of corporate governance and disclosure of information. • Constant work to improve corporate governance and improve the quality of information disclosure.
Achievements in 2017	• Preparing for the IPO, the Company successfully passed the listing procedure, the shares were admitted to trading and included in the 3rd level of the list of securities. • Independent agency RAEX (Expert RA) assigned a 'ruB' corporate credit rating to Evropeyskaya Elektrotekhnica with a stable outlook. • 2 independent Directors were nominated to the Board of Directors of the Company.
Goals for 2018	• Improvement of the corporate governance system, aspiration to comply with the standards and to correspond to the best practices of Russian issuers.
Risks for the strategy	• Compliance risks. • Country and political risks.

Maximization of profitability for shareholders

Strategic priorities	• Sustainable growth through a rational approach to the development of capital costs and high-margin projects. • Development through internal financing without borrowed funds. • Distribution of the Company's revenues among shareholders through dividends.
Achievements in 2017	• During the successful IPO, the Company raised additional funds, which will be used to implement Strategy-2021. • The Company continued to adhere to the principles of financial policy – growth through internal financing. • In September 2017, the Company's dividend policy was approved. • First dividend payments are expected less than in 11 months after the IPO.
Goals for 2018	• A balanced financial policy. • In 2018, the Company plans to allocate more than 300 million rubles for the implementation of strategic tasks. • Following the results of 2018, the Company intends to allocate no less than 20% of net profit under IFRS for dividends.
Risks for the strategy	• Project risks. • Liquidity risk. • Country and political risks.

Maintenance of high standards of the quality of work performed and strict compliance with the terms of licenses, permits and available permissions

Strategic priorities	• Building an effective system to monitor compliance with the terms of license agreements, permits, admissions and requirements of Russian standards.
Achievements in 2017	• During the reporting year, the Company received more than 30 different certificates and there was no violation of license agreements, permits and admissions.
Goals for 2018	• The Company intends to closely monitor compliance with existing licensing agreements, permits and admissions. • In 2018, the Company intends to collect a number of new certificates and licenses.
Risks for the strategy	• Compliance risks. • Personnel risks.

Business model

Factors of capital growth

Financial

We pursue a balanced financial policy, which is based on the optimal ratio of targeted capital investments in development and distribution of revenues between shareholders through dividends.

Research and production capacity

The Company is focused on the development of engineering centers and its own production as well as further strengthening of professional competencies. At the same time, the Company complies with the standards of industrial safety and environmental protection as well as the terms of all available licenses and certificates. The Company strives to constantly improve in this area, creating a solid foundation for sustainable growth in the long term.

Operational

The Company constantly works on improving every aspect of its activity by searching for innovative and high-tech ideas and solutions as well as paying more attention to operational efficiency issues.

Human capital

It is impossible to achieve success without high quality human capital. The more we invest in attracting talented specialists, the stronger we become. We have created and implemented technologies for selecting and nurturing young talents as well as technologies for preserving and transferring experience and knowledge.

Social

An important component of the success of Evropeyskaya Elektrotekhnica is a responsible approach to the issues of a social nature. The Company provides employees with a safe and comfortable work environment.

The chain of the shareholder value creation consists of eight key elements

1. A distributor of Russian and European electrical equipment in Russia

The Company supplies a wide range of products of Russian and foreign production. So far, the Company is among the best distributors of European electrical equipment in Russia.

2. Turnkey building of electricity and power supply systems

Using the strength and knowledge of an experienced team of specialists as well as our own electric laboratory, which monitors the observance of quality standards at all stages of work, we provide our client with a reliable and efficient solution that saves resources and increases the profitability of their work.

3. Engineering

We carry out design works for objects of any complexity and purposes. The Company's ideas combine innovative electrical engineering technologies with the perfectly designed base and calculated functionality.

4. In-house developments and production

Evropeyskaya Elektrotekhnica Engineering Center has several production branches and production resources. Our team of researchers together with the specialists of the Saint Petersburg Military Engineering-Technical University is developing and introducing new technical ideas.

5. Electric laboratory and commissioning works

Our own electric laboratory carries out commissioning of objects and conducts commissioning works up to 110 kV. Works specified in the regulations of the electric and technical laboratory are implemented with the provision of required documents and technical reports.

6. Installation of electric power supply systems

Evropeyskaya Elektrotekhnica performs service packages under Independent Contractor Agreements and General Contractor Agreements from designing engineering and electric components of power supply and electrical installation works to supplying special equipment.

7. Energy conservation and energy audit

The Company provides its clients with the full range of energy saving activities to increase economic efficiency of their business at the stage of engineering for both new construction and upgrading existing electric systems.

8. Maintenance service

Each solution developed by the members of our Company, first of all, meets the high requirements and standards of the Company's customers, and fully meets their business needs. We are focused on providing maintenance services that are consistent with accepted market practices both in Russia and abroad, and we are developing together with our clients.

Shareholder value creation

Stable results for all interested parties, realization of the Company's production and scientific potential, technological solutions that contribute to the achievement of our customers' goals are the priority tasks of Evropeyskaya Elektrotekhnica. We work in close cooperation with customers, contractors and suppliers in order to comply with the interests of all stakeholders. As the expectations of the shareholders are growing, we will continue to listen to them in order to create mutual benefits.

Stakeholders

Investors

Evropeyskaya Elektrotekhnica pays special attention to maximizing profitability for shareholders. We maintain a balance between a stable sustainable growth through a rational approach to the development of capital costs and growth projects, on the one hand, and profitability for investors, on the other. We strictly follow the principles of transparency, maintaining an open dialogue with all investors, applying the adopted practices to provide a complete picture of the results achieved by the Company.

Employees

Employees of the Company play a key role in achieving our success and strengthening the foundation for future achievements. We constantly invest in the professional development of our employees, offering various opportunities for employment and development as well as competitive compensations, which directly depend on the performance of each employee.

Local communities

Our engineering centers, representative offices, manufacturing enterprises provide jobs to the population residing in the regions of the Company's presence, and also stimulate the improvement of the business environment.

Partners

Evropeyskaya Elektrotekhnica, being one of the leaders in the market of energy saving systems in Russia, and also taking into account the fact of presence in various regions of the country, always strives to harmoniously combine the interests and needs of the world, Russian and regional partners and encourage the development of regional representatives.

Specialization and projects

Evropeyskaya Elektrotekhnica has a diversified structure of project portfolio, represented by a wide range of customers from small enterprises to backbone companies from different sectors of the economy. The team of Evropeyskaya Elektrotekhnica has considerable experience in implementing projects of varying degrees of complexity, in-depth understanding and expertise in various sectors of the Russian economy. The company's specialization covers the following key areas:

Oil and gas industry

Evropeyskaya Elektrotekhnica successfully works with the largest players in the oil and gas industry. PJSC Gazprom – the world leader in gas production – is among the customers of the Company. The Company worked at the facilities of PJSC Rosneft – one of the leading players in the world oil market as well as PJSC Lukoil – the second company in the country in terms of oil production. In addition, the Company actively cooperates and has a portfolio of successfully implemented projects with other companies of the oil and gas industry – OJSC Surgutneftegaz, PJSC Transneft, PJSC Bashneft, PJSC Novatek and many others.

Energy industry

Energy security is an important element of Russia's sustainable development. Our Company contributes to the strengthening and development of the country's energy potential. We are actively building up our cooperation with representatives of the energy industry, carrying out a wide range of works.

Metals and mining industry

Evropeyskaya Elektrotekhnica works with the key enterprises of the metallurgy and mining industry. The geography of the projects covers the entire territory of Russia. In 2017, our specialists have completed works at the sites of United Metallurgical Company (OMK), at coal mines of JSC Siberian Coal Energy Company.

Chemical and food industry

The chemical and food industries have significant growth potential due to the gradual recovery of the Russian economy and the revival of domestic consumption. In 2017, we increased the share of this direction in the revenue mix of the Company. Evropeyskaya Elektrotekhnica actively implements its projects at the enterprises of food and agro-industrial industries.

Major projects implemented in 2017

- Yamal LNG – supply of equipment for the construction of the plant;
- PJSC Nizhnekamskneftekhim – supply of equipment for the construction of plants:
  - for the production of divinyl and carbon raw materials (DBiUVS);
  - for the production of butyl rubber (BR);
  - for the production of isoprene monomer (IM);
  - management of wastewater and sewage treatment (UVKiOSV);
  - Ethylene plant;
- PJSC Rosneft – supply of equipment for field development;
- PJSC Gazprom – supply of equipment for the construction of the gas pipelines Power of Siberia, Nord Stream-2.

Key performance indicators (KPIs)

We correlate the results of our activities in 2017 with a number of key financial and operational indicators for the previous year. Against the backdrop of the gradual recovery of the Russian economy, improvement of macroeconomic parameters and increased activity of enterprises from various industries, the Company was able to significantly improve its key performance indicators due to a successful implementation of initiatives under Strategy-2021, a change in the approach to the formation of project portfolio and measures to improve operational efficiency.

The following information is on the applicability of KPI to the Company's strategy and the dynamics of the indicators compared to the previous periods as well as the corresponding description:

Indicator	Indicator's dynamics	Applicability to strategy	2017	Future forecast
Revenue	3,167 million rubles in 2016 compared to 2,595 million rubles in 2017.	The key financial indicator used throughout the Company and reflecting the full amount of money received from the sale of products, services, works for the period under review.	The decrease in revenue in the reporting period is due to a one-time effect as a result of a change in the approach to the formation of the project portfolio.	Following the results of 2018, the Company expects revenue to grow to the level of 3,500 – 4,000 million rubles.
Net profit	42 million rubles in 2016 compared to 135 million rubles in 2017.	Since inception, the Company has relied on internal sources to fund growth. Net profit is an important source of financing for development projects as well as a base for dividend payments to shareholders.	Net profit for 2017 reached 135 million rubles, which is an increase of more than 3.3 times compared to the previous year. Such growth was possible due to the focus on increasing the profitability of project portfolio and monitoring the operational efficiency.	The Company is making every effort to increase the indicator in the future. According to the Company's estimates, in 2018 net profit can amount to over 350 million rubles.

Indicator	Indicator’s dynamics	Applicability to strategy	2017	Future forecast
Volume of production	620 million rubles in 2016 against more than 900 million rubles in 2017.	Volume of production is an indicator of the effectiveness of the Company's operating activities, which reflects the ability of the operating and management teams to achieve the goals outlined in the plan for the year.	The indicator grew by 60% for the year, which is due to the expansion of in-house production facilities as well as the launch of new product groups.	Since 2014, the volume of manufactured products has grown by more than 5 times. The Company intends to continue to increase production by expanding its own capacities.
Engineering centers	In 2017 the Company opened 4 new engineering centers, the total number reached 13.	The engineering centers of the Company are engaged in construction of power supply systems from design to commissioning throughout the Russian Federation and the CIS, thanks to a well-developed branch network.	The Company consistently implements previously announced plans to open new engineering centers, which, due to their geographical proximity to potential facilities, will create synergies.	The Company plans to expand the network to 20 by 2020 due to the opening of new centers both in Russia and abroad.

Market review

The macroeconomic situation in Russia is characterized by a gradual economic recovery, a focus on import substitution and a search for new growth points in industries focused on the domestic market. The growth of GDP by the end of the year was 1.5%. Against this background as well as by lowering inflation and easing monetary policy, a solid basis is created to increase the cost of renewing fixed assets and launching new projects in industry and other key sectors of the economy as part of the course aimed at modernizing Russian industry and building large-scale infrastructure projects.

The power supply market is one of the strategically important areas, since it provides key branches of the Russian economy with modern energy saving solutions and technologies that meet world quality standards. Due to this, Russian enterprises, both systemically important and those related to the segment of small and medium-sized enterprises, have the opportunity to become more efficient, increase the profitability of their business and, consequently, have a higher base for investing in their own growth.

The state takes an active part in the development and support of power supply companies through participation in financing large-scale investment programs, allocation of benefits and assistance. Despite the still lagging behind from advanced economies in terms of market volumes, investments directed to the development of power supply technologies and the size of companies, the Russian market has significant growth potential. Among the key drivers of growth are the following factors:

- **Positive dynamics of investing in renewal of fixed assets**

One of the features of the Russian economy is a steady growth in investments in fixed assets (premises, except residential buildings and constructions) over the past 9 years, despite the difficult macro and geopolitical situation. Thus, in 2017, investments in fixed assets reached 7,215 billion rubles, which is 10% higher than the figure indicated a year earlier. At the same time, since 2009, growth of investments has exceeded 100%.

- **High depreciation of fixed assets**

Taking into account the dynamic growth of investments in fixed assets, depreciation of fixed assets in Russia, nevertheless, remains at the level of around 47-48%. This situation is due to the lack of attention from the state and business to this issue in the Soviet and post-Soviet period and, as a result, there is significant accumulated depreciation.

- **The trend towards electrification**

Russia is one of the largest power producers in the world. However, the modern development of electrification of the country is inferior to developed countries. In Russia, there is a significant potential for energy saving in the economic sectors. In spite of the fact that Russia is among the leaders of the world community in terms of studying the problem, the practical component of electrification has considerable potential for improvement.

• **Focus on import substitution**

The provision of the country's economy with its own technologies, equipment, modern energy saving solutions is an integral element of Russia's energy security. In this regard, import substitution was identified as one of the priority areas of public policy.

• **Renewal of the electrical infrastructure**

Despite the recent volatility in the world commodity markets, the largest players in the oil and gas, petrochemical and energy sectors of Russia continue to implement and launch extensive investment programs designed for a period of several years. About 10% of the capital expenditures planned for the coming years are expected to be directed to electrical engineering of all kinds.

Key risks and uncertainties

The Company's activities are associated with various risks that may affect the results of operating, financial and investment activities.

The Company strives for successful development, rational allocation of resources and strengthening of competitiveness through efficient risk management. Risk management includes the identification and assessment of potential threats as well as the development of activities aimed at reducing risks. The Company has developed internal procedures regulating activities in the field of risk management.

The main risks and uncertainties are described below in conjunction with activities aimed at reducing potential threats.

Project risks

The implementation of projects by the Company is subject to market, operational risks, compliance risks, late delivery and infringement of contracts by contractors, manufacturers or suppliers of equipment and process materials.

Causes

Negative impact on the implementation of projects can be caused by: late issuance of working documentation for the design of systems and supply of necessary equipment and materials, the receipt of poor-quality products from manufacturers, non-compliance with the terms and technology of erecting objects by contractors and other possible events that affect the implementation of production plans and project due dates.

Impact

The occurrence of project risks can endanger the implementation of both a separate phase of a specific project and an entire project, and lead to an increase in the timing and cost of projects, the failure to implement the Company's project program.

Activities

In order to reduce risks in the implementation of projects, the Company has developed procedures for the comprehensive study, analysis and development of the implementation plan for projects proposed for realization. Each project is reviewed by an expert group within the Company whose members have experience in implementing projects of varying degrees of complexity and represent different sectors of the economy.

Monitoring of the implementation of projects is carried out at all stages. In order to reduce risks, regular monitoring of the due dates, obtaining all necessary documentation and permits is carried out. The Company is in constant interaction with the customer, reports any deviations in the course of the project's implementation and develops operational measures for their elimination.

In addition, the Company conducts tender procedures, careful input control of new equipment and process materials. In order to avoid interruptions in production processes, the Company plans to implement its significant projects accordingly. In addition, the Company is taking measures to diversify purchases of equipment and materials.

Risk significance

High

Compliance risks

The Company's operations may be adversely affected by non-receipt, termination or refusal to extend licenses, permits or admissions, primarily in the construction and design spheres.

Causes

The Company's activities depend on the period of validity of licenses, permits and admissions, and compliance with their terms and conditions. The terms of license agreements, admissions and permits require the Company to comply with legislation, attract qualified personnel, have necessary equipment and quality control systems, and control over production operations.

Impact

If the license requirements, conditions of permits, admissions and licenses necessary for the Company are not fulfilled, they may be terminated ahead of schedule and/or may not be issued or extended as well as they may be issued or extended late or contain requirements that limit the Company's ability to fully carry out its activities and fulfill obligations.

Activities
The Company is constantly working to improve the system for monitoring compliance with the terms of license agreements, permits, admissions and requirements of Russian standards. If deviations or remarks are revealed by state regulatory and supervisory bodies, they are carefully analyzed and eliminated.

Risk significance
Medium

Logistics risks

The Company's activities are related to the delivery of products, including bulky cargo, throughout Russia, including hard-to-reach areas of the North of Russia as well as CIS countries.

Causes
Among the causes of these risks can be both internal and external factors. The first group includes malfunctions, deviations in the work of functional areas and logistics management. The second group includes events related to natural disasters, severe climatic conditions, poor road conditions, etc.

Impact
In the event of failures in organization of logistics schemes, deviation in delivery schedules of the necessary equipment is possible, which can negatively affect the timely fulfillment of obligations to the customer.

Activities
The well-established logistics allows us to deliver products, including bulky cargo, all over Russia, including hard-to-reach areas of the North as well as to Belarus, Kazakhstan, Turkmenistan, Kyrgyzstan and Uzbekistan. The presence of representative offices of the Company in the cities of Russia provides optimal logistics schemes that allow saving time and money for our customers.

Risk significance
High

Price, currency and inflation risks

Evropeyskaya Elektrotekhnica concludes contracts in rubles, part of the purchased equipment is supplied from abroad. Inflationary processes in Russia also have an impact on the Company's operations.

Causes

The value of contracts, a small part of which is nominated in foreign currency; the cost of equipment, materials, services and wages are nominated in rubles and, therefore, depend on the exchange rate of the ruble and the rate of inflation. An increase in tariffs of «natural monopolies» can also lead to an increase in costs.

Impact

Significant fluctuations in the exchange rate of the national currency may have an adverse effect on the results of operations and financial position of the Company. Despite the fact that the share of contracts in foreign currency does not exceed 3% of the total volume, a sharp change in foreign exchange rate may also affect financial results.

Activities

The company conducts constant monitoring of the cost of equipment and materials, builds long-term relationships with a pool of proven suppliers and counterparties to obtain the conditions that suit the Company. Inflationary expectations are taken into account when planning the budget and expenditures for the implementation of investment projects. In addition, the Company shifts to the conclusion of contracts only in national currency, which allows minimizing the risks associated with fluctuations in foreign exchange rates.

Risk significance

Medium

Liquidity risk

Evropeyskaya Elektrotekhnica executes large contracts which average amount is 100 million rubles. In addition, historically the Company has relied exclusively on internal sources to fund growth, reinvesting its net profit in development and not resorting to debt financing.

Causes

The causes include: reduction in the solvency of customers, rescheduling or cancellation of the timing of project implementation due to the deterioration of the economic situation in the country as well as the occurrence of geopolitical risks.

Impact

Untimely payment for works and services of Evropeyskaya Elektrotekhnica may cause a shortage of money to carry out economic activities and damage the financial state of the Company.

Activities

The company has a liquidity reserve that allows it to maintain a contractual framework, as well as to finance management and investment needs using its own resources. Evropeyskaya Elektrotekhnica regularly monitors risk factors, which include: production of finished products, the amount of operating costs, the price of finished products, the need for working capital, planned capital costs in the medium and long term. The measures taken to regulate liquidity risk allow the Company to remain competitive and maintain long-term financial sustainability.

Risk significance

Medium

Country and political risks

The Company's activities may be adversely affected by the instability of the political situation – international, including military conflicts, the imposition of economic and administrative sanctions.

Causes

The implementation of activities in Russia and Kazakhstan as well as close cooperation and interaction with partners from a wide range of countries around the world, is associated with certain risks of political instability, which may include, for example, changes in the composition of the government, negative political changes and civil disorders. Russia's difficult relations with the United States and the European Union can potentially exert pressure on Western partners of the Company. Moreover, the further imposition of sanctions against Russia and the refusal of cooperation at the international level in several areas could lead to deterioration of the business climate in the country, slowdown in economic growth and, as a result, suspension of the implementation of investment programs.

Impact

These factors may adversely affect the Company's market value, the conditions of its activities, lead to deterioration of relations with Western partners, the reduction of orders and, as a result, have a negative impact on the operating and financial indicators of Evropeyskaya Elektrotekhnica.

Activities

The company conducts continuous monitoring of political processes and tracks the development of the situation, both in the Russian economic space and beyond its limits. Evropeyskaya Elektrotekhnica is aimed at creating mutually beneficial cooperation as well as strengthening and maintaining open business relations with partners around the world.

Risk significance

Medium

Personnel risks

Causes

Personnel risks include possible reduction in the inflow of qualified personnel into the industry for reasons beyond the control of the Company. The Company sets high professional requirements to both already working employees and candidates. As a result, the Company may face a shortage of personnel in the cities of presence as well as in the regions of further possible expansion.

Impact

Occurrence of personnel risks can cause such negative events as non-fulfillment of production plans, industrial injuries, failure of equipment, production faults as well as violation of project implementation due dates and reduction in the quality of the work performed.

Activities

The Company's actions are aimed at reducing the level of personnel risks. Staff selection and training mechanisms have been built within the Company, interaction with regional employment agencies has been organized. In addition, the Company constantly improves the staff motivation system and is working to improve social and living conditions.

Risk significance

Low

Financial performance

Millions of rubles	2015	2016	2017	Ch. %
Revenue	2,687	3,167	2,595	–18 %
EBITDA	36	80	371	4.6 x
EBITDA margin	1.3 %	2.5 %	14.3 %	11.8 p.p.
Net profit	92	42	135	3.3 x
Assets	1,267	1,355	1,155	–15 %
Equity	217	214	542	2.5 x
Debt	–	–	–	–

Key financial indicators

At the end of 2017, the Company's revenue amounted to 2,595 million rubles (net of VAT), having decreased by 18% as compared to the previous year. The decrease is due to a one-off effect as a result of change in the Company's approach to the formation of project portfolio. The Company focuses on high-margin areas and projects, cutting off low-margin positions.

The result of the change in the approach to formation of project portfolio was a significant reduction in costs in 2017, which, coupled with an increase in operating profit, led to an increase in EBITDA of 4.6 times compared to 2016. At the same time, EBITDA margin reached 14.3% at the end of the year, having increased by 11.8 p.p. for the year.

In 2017, the Company recorded a net profit growth of 3.3 times to 135 million rubles, which is largely explained by the measures implemented by Evropeyskaya Elektrotekhnica concerning the change in the approach to determining the composition of projects portfolio.

The Company's assets at the end of the year amounted to 1,155 million rubles, which is 15% lower than on 31 December 2016. The reduction in assets is largely due to the decrease in fixed assets as a result of reassessment in the reporting period and the smaller amount of accounts receivable and prepayments.

The Company's equity capital at the end of 2017 amounted to 542 million rubles, which is 2.5 times higher than the same indicator a year earlier. Significant growth of equity capital was achieved due to formation of additional capital, creation of positive reserves for merger as well as growth of retained earnings for the reporting period.

In 2017, Evropeyskaya Elektrotekhnica continued to adhere to the developed principles of financial discipline – the Company has relied on internal sources to fund growth without loans. As a result, the Company maintained its zero debt.

Energy resources used

Name	Quantity (by volume)	Quantity (by value, RUB)
Nuclear energy	–	–
Thermal energy	351.73 Gcal	678,975.89
Electricity	80,650.00 kW	508,740.15
Electromagnetic energy	–	–
Oil	–	–
Motor gasoline	15,4656.21 liters	542,609.42
Diesel fuel	3,657.33 liters	121,292.49
Fuel oil	–	–
Natural gas	–	–
Coal	–	–
Oil shale	–	–
Turf	–	–
Others	–	–

Report on payment of declared (accrued) dividends on shares

The Company builds its dividend policy on the balance of interests of the Company and its shareholders, respecting and strictly observing the rights of shareholders provided for by the current legislation of the Russian Federation, the Company's charter and its internal regulations.

The company was registered as a legal entity on 12 January 2016. During 2017, the general meeting of shareholders did not take a decision on the payment (declaration) of dividends based on the results of the 2016 financial year, the first quarter, the first half of the year and the first nine months of the 2017 financial year. In this connection, the company did not pay dividends in 2017.

Corporate Governance Report

Evropeyskaya Elektrotekhnica

Corporate governance

The corporate governance structure of the Public Joint-Stock Company Evropeyskaya Elektrotekhnica:

- The supreme governing body of the Company is the General Meeting of Shareholders.
- General management of the company's activities is carried out by the Board of Directors, with the exception of resolving issues referred to the exclusive competence of the General Meeting of Shareholders.
- Management of the current activities is carried out by the sole executive body of the Company (CEO).

General Meeting of Shareholders

The General Meeting of Shareholders of Evropeyskaya Elektrotekhnica carries out its activities in accordance with the Federal Law on Joint-Stock Companies and the Company's charter.

The Company annually holds the Annual General Meeting of Shareholders not earlier than two months and no later than six months after the end of the financial year. The procedure for preparation, convocation, holding and summing-up of the results of the General Meeting of Shareholders is determined by the current legislation and the Company's charter.

The competence of the General Meeting of Shareholders includes issues related to the election of members of the Company's Board of Directors, members of the Company's Audit Commission, the issue of the company's auditor appointment, issues of profit distribution based on the results of the financial year, including payment (declaration) of dividends.

At the General Meeting, the annual report, accounting statements are approved, and other issues referred by the Federal Law on Joint-Stock Companies and the Company's charter to the scope of competence of the General Meeting of Shareholders may be resolved.

The issues referred to the competence of the General Meeting of Shareholders cannot be transferred to other bodies of the company. The General Meeting of Shareholders shall not be entitled to take decisions on issues that are not within its competence.

Board of Directors

In 2017, the Board of Directors held 4 meetings, at which issues were resolved and decisions were made in accordance with its competence. All members of the Board of Directors, without exception, took personal part in all meetings. The effectiveness of the Board of Directors' activities in the reporting year is assessed as high.

According to the decision of the General Meeting of Shareholders dated 7 June 2017, the following persons were elected to the Board of Directors:

Sergey Dubenok

Chairman

Year of birth: 1974. Education: university degree.
Main job: PJSC Evropeyskaya Elektrotekhnica, Director for Development.

Transactions on purchase (disposal) of shares of the company in the reporting period:

1. Transaction on disposal of 50 million ordinary shares was completed on 03.03.2017;

2. Transaction on disposal of 2 million 200 thousand ordinary shares was completed on 29.08.2017.

Interest in the Charter capital – 40.6230 %
Interest in ordinary shares – 40.6230 %

Ilya Kalenkov

Year of birth: 1970. Education: university degree.
Main job: Evropeyskaya Elektrotekhnica EC LLC, CEO.

Transactions on purchase (disposal) of shares of the company in the reporting period:

1. Transaction on disposal of 50 million ordinary shares was completed on 03.03.2017;

2. Transaction on disposal of 10 million ordinary shares was completed on 29.08.2017.

Interest in the Charter capital – 40.9836 %
Interest in ordinary shares – 40.9836 %

Margarita Baskova

Year of birth: 1975. Education: university degree.

Main job: Evropeyskaya Elektrotekhnica EC LLC,
Chief Accountant.

No transactions on purchase (disposal) of the company's shares in the reporting period were made.

Has no interest in the Charter capital.

Mikhail Baskov

Year of birth: 1978. Education: university degree.

Main job: Evropeyskaya Elektrotekhnica EC LLC, Commercial Director.

No transactions on purchase (disposal) of the company's shares in the reporting period were made.

Has no interest in the Charter capital.

Nikolay Babenko

Year of birth: 1980. Education: university degree.

Main job: Evropeyskaya Elektrotekhnica – North-West LLC, CEO.

No transactions on purchase (disposal) of the company's shares in the reporting period were made.

Has no interest in the Charter capital.

Olga Manaenkova

Year of birth: 1968. Education: university degree.

Main job: Evropeyskaya Elektrotekhnica EC LLC, Lighting Facilities Sales Director.

No transactions on purchase (disposal) of the company's shares in the reporting period were made.

Has no interest in the Charter capital.

Since the election of the Board of Directors by the decision of the General Meeting of Shareholders, there have been no changes in the composition of the Board of Directors of the company during 2017.

Board of Directors' report on the results of work for 2017

The Board of Directors of Evropeyskaya Elektrotekhnica carries out general management of the Company's operations. The main functions of the Board of Directors are: to determine the priority areas of activity, manage and control financial and economic operations of the Company, ensure the exercise of the rights of its shareholders, and monitor and control the operations of the administration.

The competence of the Board of Directors includes resolving issues concerning the company's activities, excluding matters reserved to the General Meeting of Shareholders and CEO. Issues reserved to the Board of Directors of the Company cannot be transferred to a decision of the executive body of the Company.

The decisions of the Board of Directors of the Company are aimed at:

- determining priority directions of the Company's operations;
- increasing the efficiency of work of the Company's representative offices on the territory of the Russian Federation and abroad;
- organization of work with partners;
- development of new and improvement of existing corporate documents of the Company;
- ensuring the information transparency of the Company.

Despite the current instability of the economic situation in Russia, Evropeyskaya Elektrotekhnica has reached the level of the planned indicators. The competent policy of the management, which made certain decisions to improve the economy in the conditions of a declining market, allowed the Company to continue implementing its strategic priorities.

CEO

Management of the current operations of the company is carried out by the sole executive body – CEO.

CEO is accountable to the Board of Directors and the General Meeting of Shareholders.

Ilya Kalenkov

Year of birth: 1970. Education: university degree.

Main job: Evropeyskaya Elektrotekhnica EC LLC, CEO.

Transactions on purchase (disposal) of shares of the company in the reporting period:

1. Transaction on disposal of 50 million ordinary shares was completed on 03.03.2017;
2. Transaction on disposal of 10 million ordinary shares was completed on 29.08.2017.

Interest in the Charter capital – 40.9836 %
Interest in ordinary shares – 40.9836 %

Remuneration for members of governing bodies

Board of Directors

By the decision of the General Meeting of Shareholders, the members of the Board of Directors of the Company may be paid remuneration and (or) reimbursed for expenses related to their performance of the functions of the members of the Board of Directors. The amount of such remuneration and reimbursement is established by the decision of the General Meeting of Shareholders.

The Company has not paid remunerations, bonuses, commissions, remunerations, separately paid for participation in the work of the relevant governing body, other types of remunerations during 2017.

The authorized governing bodies of the Company did not take decisions and (or) did not enter into agreements on the amount of remuneration payable and (or) the amount of such expenses to be compensated in relation to the members of the Board of Directors.

In 2017 the Company's policy in the field of remuneration and (or) reimbursement for expenses was not developed.

CEO

The size of the remuneration for CEO is determined by an employment agreement (contract) concluded between CEO and the Company.

Company's transactions

Evropeyskaya Elektrotekhnica is a joint-stock company, which is subject to disclosure requirements in the form of quarterly report and material fact notice, as a result, the information, provided for by Article 70.3 Chapter 70 Regulation No. 454-P, dated 30 December 2014, On Disclosing Information by the Issuers of Issue-Grade Securities, is presented in the sections Major Transactions and Interested Party Transactions.

Major transactions

In the reporting year of 2017, Evropeyskaya Elektrotekhnica closed no transactions treated as major transactions under the Federal Law On Joint-Stock Companies.

Interested party transactions

In the reporting year of 2017, Evropeyskaya Elektrotekhnica closed no transactions treated under the Federal Law On Joint-Stock Companies as interested party transactions, which need approval of authorized governing body of the Company as it is envisaged by the Chapter XI of the Federal Law On Joint-Stock Companies.

Information on compliance with the corporate governance code, its principles and guidelines

In September 2017, Evropeyskaya Elektrotekhnica approved its own Corporate Conduct Code (hereinafter – the Code). The Code is based on the requirements of the Russian legislation, the best Russian and international practices of corporate governance, including the principles recommended for application by the Corporate Governance Code of the Central Bank of Russia.

The Code contains the principles:

- equal treatment of shareholders, including minority shareholders;
- ensuring shareholders' influence on significant corporate events;
- honesty, openness and mutual respect;
- absolute transparency of corporate governance;
- regularity, speed and availability of information disclosure;
- maintaining a balance between openness of the Company and concern for protecting its commercial interests and confidential information;
- ensuring effective functioning of the system of control over financial and economic operations of the company;
- transparency of the mechanism for determining the size of the dividend;
- operating in the interests of the company and its shareholders.

The following internal documents were approved in the Company:

- Corporate Conduct Code
- Dividend Policy
- Regulations on the Audit Commission (Auditor)
- The List of Insider Information

The report on compliance with the corporate governance code, its principles and guidelines was reviewed by the Board of Directors of Evropeyskaya Elektrotekhnica at the meeting of the Board of Directors held on 7 May 2018 (Minutes No. 4-SD/2018 of 10 May 2013) and submitted as part of this Report in Appendix 1.

Shareholders of Evropeyskaya Elektrotekhnica

Information on the major registered persons in the register of holders of securities of Evropeyskaya Elektrotekhnica as of 31 December 2017:

1. Ilya Kalenkov

Interest in the Charter capital of the issuer 40.9836 %
Interest in ordinary shares of the issuer 40.9836 %

2. Sergey Dubenok

Interest in the Charter capital of the issuer 40.6230 %
Interest in ordinary shares of the issuer 40.6230 %

3. Other shareholders

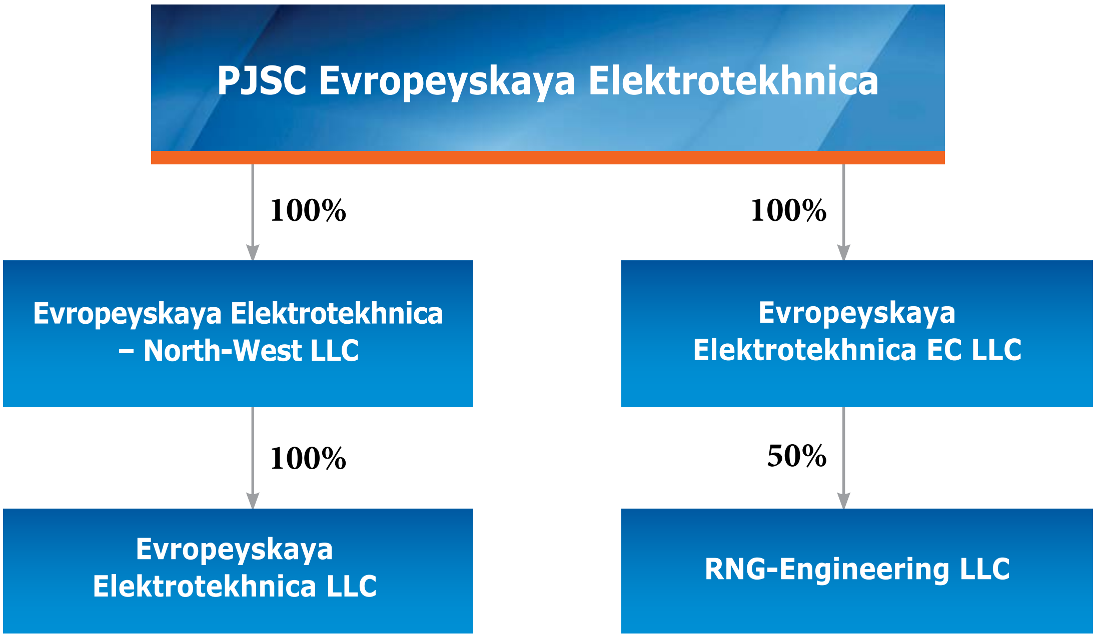
Interest in the Charter capital of the issuer 18.3934 %
Interest in ordinary shares of the issuer 18.3934 %

The state has no interest in the Charter capital of the issuer.

Securities

In the Russian Federation, ordinary shares of Evropeyskaya Elektrotekhnica are traded on Moscow Exchange under the ticker EELT
ISIN code: RU000A0JWW54
Date of beginning of trading: 07.09.2017
Type, category of a security: ordinary shares
Nominal value of a share: 1.0
Face value currency: rubles
Total number of shares issued: 610,000,000
State registration number of the issue: 1-01-83993-H
Registrar: VTB Registrar

Ownership structure of Evropeyskaya Elektrotekhnica*



** – the information is presented taking into account subsequent events.*

Appendices

Evropeyskaya Elektrotekhnica

Appendix 1

Report on compliance with the principles and recommendations of the Corporate Governance Code

The Board of Directors confirms that the information presented in this report contains complete and reliable information regarding compliance of Evropeyskaya Elektrotekhnica with the principles and recommendations of the Corporate Governance Code for 2017. This report is a statement of the Board of Directors on compliance with the principles of corporate governance.

This report uses a reference to the paragraphs of the Corporate Conduct Code recommended for use by the Bank of Russia Letter No. 06-52/2463 dated 10.04.2014 On the Corporate Governance Code (hereinafter – the Code).

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of 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 favorable conditions for shareholder participation in the General Meeting and conditions for working out a well-founded position on General Meeting agenda items and coordinating their activities as well as the opportunity to express their views 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. 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 the preparation process for holding the General Meeting. The said steps were taken by the company before each General Meeting held in the reporting period.	Complied with ☐ Partially complied with V Not complied with ☐	The procedures for holding the General Meeting strictly correspond to the Company's charter and the current legislation of the Russian Federation. There is no internal document in the company approved by the General Meeting of Shareholders and regulating the procedure for holding a General Meeting.
1.1.2	The procedure for notification of the holding of the General Meeting and for the provision of materials for the General Meeting gives shareholders the opportunity to properly prepare for their participation in it.	1. Notification on the holding of a General Meeting of Shareholders is posted (published) on the website no later than 30 days before the date of the General Meeting. 2. Notification on the holding of the Meeting specifies the location of the meeting and the documents required for admission to the building. 3. Shareholders were provided access to information about who proposed agenda items and who proposed nominees to the Board of Directors and Audit Commission of the company.	Complied with ☐ Partially complied with V Not complied with ☐	Notification on the holding of the General Meeting specifying the location of the meeting and the documents required for admission to the building, as well as providing materials to shareholders for the General Meeting, is made in accordance with the Federal Law On Joint-stock Companies, no later than 20 days before the appointed date.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
1.1.3	During the course of preparation and the actual General Meeting, shareholders were able to receive information about the meeting and its related materials freely and in a timely manner, ask questions of the executive bodies and members of the Board of Directors of the company, and communicate with each other.	1. During the reporting period, shareholders were given the opportunity to ask questions to members of the executive bodies and to members of the Board of Directors of the company before and during the Annual General Meeting. 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 during previous reporting periods was included in the materials for the General Meeting of Shareholders. 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 its receipt by the company for every General Meeting held in the reporting period.	Complied with V Partially complied with Not complied with	
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 the opportunity for at least 60 days following the end of the respective calendar year to submit proposals to be included in the agenda of the Annual General Meeting. 2. During the reporting period, the company did not reject any proposals for the agenda or candidates for the company's governing bodies due to typographical errors or other nonessential flaws present in the shareholder's proposal.	Complied with Partially complied with V Not complied with	The term for shareholders to make proposals for the agenda of the annual General Meeting corresponds to the period established by law, i.e. not later than 30 days after the end of the fiscal year.

1.1.5	Each shareholder had the opportunity to freely exercise their right to vote 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.	Complied with ☐ Partially complied with ☐ Not complied with V	The Company does not have an internal document (internal policy) of the company which 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. The Company plans to consider the issue of adopting the document containing this principle in 2018.
1.1.6	The General Meeting procedure established by the company provides equal opportunity for all people attending the meeting to express their opinions and ask any questions they want.	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. 2. Candidates for the Company's governance and control bodies were available to answer questions asked by shareholders at the meeting where their nominations were voted upon. 3. The Board of Directors, when making decisions related to the preparation and holding of General Meetings, considered the use of telecommunications facilities to provide shareholders remote access for participation in General Meetings during the reporting period.	Complied with ☐ Partially complied with V Not complied with ☐	The Board of Directors, when making decisions related to the preparation and holding of General Meetings, did not consider the use of telecommunications facilities to provide shareholders remote access for participation in General Meetings during the reporting period. The Board of Directors plans to consider this option in 2018.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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. 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 take the indicators of consolidated financial statements into account.	Complied with V Partially complied with Not complied with	
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.	Complied with V Partially complied with Not complied with	

1.2.3	The company does not allow the deterioration of dividend rights for existing shareholders.	1. During the reporting period, the company did not take any action leading to the deterioration of the dividend rights of existing shareholders.	Complied with V Partially complied with Not complied with	
1.2.4	The company is committed to excluding shareholders' use of other ways to make profit (income) at the expense of the company besides dividends and disposal value.	1. To exclude shareholders' use of other ways to earn profit (income) at the expense of the company besides dividends and disposal value, the company's internal documents establish control mechanisms that ensure the timely identification and procedure for the approval of transactions with persons affiliated (associated) with substantial shareholders (persons entitled to dispose of votes from voting shares) in cases where the law does not formally recognize such transactions as related-party transactions.	Complied with V Partially complied with Not complied with	
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.**			

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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 the inadmissibility of major shareholder abuses in relation to minority shareholders.	1. During the reporting period, the procedures for managing potential conflicts of substantial shareholders' interests were effective, and conflicts between shareholders, if there were any, were given due attention by the Board of Directors.	Complied with [V] Partially complied with [ ] Not complied with [ ]	
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.	Complied with [ ] Partially complied with [ ] Not complied with [V]	The Company has quasitreasury shares. The Company plans to take this fact into account in the future and strive to exclude its influence on corporate control in the Company.

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.**			
1.4.1	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.	Complied with ☑ Partially complied with ☐ Not complied with ☐	
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 offices, inter alia, due to a failure of members of such bodies to perform their duties properly. The Board of Directors also supervises to ensure that the company's executive bodies act in accordance with the approved development strategy and main lines of the company's activity.	1. The Board of Directors has statutory powers to appoint to and release from office and also to define the contract terms for executive body members. 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.	Complied with ☑ Partially complied with ☐ Not complied with ☐	

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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.	Complied with ☐ Partially complied with ☑ Not complied with ☐	The Board of Directors pays special attention to the discussion of these issues during the meetings, but these issues have not been separately reflected in the disclosed decisions of the Board of Directors. The Board of Directors will eliminate these omissions in the future.
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. 2. The Board of Directors has assessed the risk management and internal control system of the company during the reporting period.	Complied with ☐ Partially complied with ☑ Not complied with ☐	The Board of Directors observes the principles of and approaches to the organization of the risk management and internal control system of the company. These principles will be reflected in the internal documents of the Company in 2018.

2.1.4	The Board of Directors determines the company's policy on the 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 of the company approved by the Board of Directors. 2. Issues related to such policy (policies) were examined during the reporting period at the Board of Directors meetings.	Complied with [ ] Partially complied with [ ] Not complied with [V]	In 2017 the Company has not 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 of the company. The Company plans to develop and implement this policy in 2018.
2.1.5	The Board of Directors plays a key role in the 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 the prevention, detection, and resolution of internal conflicts. 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.	Complied with [V] Partially complied with [ ] Not complied with [ ]	

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
2.1.6	The Board of Directors plays a key role in ensuring the transparency of the company, the timeliness and completeness of the company's disclosure of information, and unhindered shareholder access to the company's documents.	1. The Board of Directors has approved the Regulation on Information Policy. 2. The company has defined the persons responsible for the implementation of the information policy.	Complied with ☐ Partially complied with ☐ Not complied with ☑ V	There is no Regulation on Information Policy approved by the Board of Directors in the Company. In 2018, the Board of Directors plans to approve this provision and identify the persons responsible for its implementation.
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.	Complied with ☐ Partially complied with ☑ V Not complied with ☐	During the reporting period, the Board of Directors considered the issue of corporate governance practices and the introduction of its best aspects in the corporate governance of the Company, but these issues were not separately reflected in the disclosed decisions of the Board of Directors. The Board of Directors will eliminate these omissions in the future.
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 the attendance of Board and Committee meetings by individual directors. 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.	Complied with [V] Partially complied with [ ] Not complied with [ ]	
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.	Complied with [V] Partially complied with [ ] Not complied with [ ]	
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.**			

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
2.3.1	Only persons who have an excellent business and personal reputation as well as the knowledge, skills, and experience required to make decisions within the competence of the Board of Directors and required 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 Board of Directors members. 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.	Complied with ☐ Partially complied with ☑ V Not complied with ☐	The Company strictly approaches the selection of candidates for the Board of Directors and carefully analyzes their business and personal reputation, knowledge, skills, and experience required to make decisions within the competence of the Board of Directors. The Board of Directors follows the same procedure when nominating candidates to the Board of Directors. However, this assessment was not reflected in the disclosed decisions of the Board of Directors. The company plans to eliminate these omissions in the future.
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 their 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.	Complied with ☑ V Partially complied with ☐ Not complied with ☐	

2.3.3	The composition of the Board of Directors is balanced, inter alia, in terms of the 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 analyzed its own needs related to professional qualifications, experience, and business skills.	Complied with V Partially complied with Not complied with	
2.3.4	The number of members of the Board of Directors makes it possible to organize 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.	Complied with Partially complied with V Not complied with	The number of members of the Board of Directors makes it possible to organize 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. The assessment of the sufficiency of the quantitative composition was determined in 2016 and determined by the charter of the Company.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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 their own opinion and who is able to express unbiased and scrupulous judgments that do not depend on the influence of 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 they are 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.	Complied with ☐ Partially complied with ☐ Not complied with V	In the reporting year, there were no independent members in the composition of the Board of Directors. In December 2017, two candidates for independent directors to be elected at an extraordinary General Meeting of Shareholders in 2018 that meet all the criteria for independence specified in the Corporate Governance Code recommended for use by the Bank of Russia and the independence criteria established by PJSC Moscow Stock Exchange were proposed to the company's shareholders.

2.4.2	An assessment of whether the candidates to the Board of Directors comply with 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. 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. 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.	Complied with ☐ Partially complied with ☐ Not complied with ☑ V	The Board of Directors of the Company consists entirely of directors associated with the company. A separate opinion on the independence of the current composition was not drawn up by the Board of Directors, no conclusions were made to shareholders. From 2018, the Company plans to regularly assess the independence of the members of the Board of Directors in accordance with the independence criteria established by the Corporate Governance Code recommended for use by the Bank of Russia and the independence criteria established by PJSC Moscow Stock Exchange.
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.	Complied with ☐ Partially complied with ☐ Not complied with ☑ V	In the reporting year, there were no independent members in the composition of the Board of Directors. In December 2017, two candidates for independent directors to be elected at the extraordinary General Meeting of Shareholders in 2018 were proposed to the company's shareholders. The number of nominees for independent directors was 2 out of 6 candidates proposed for election to the Board of Directors.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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) preevaluate significant corporate actions related to possible conflict of interests and provide the Board of Directors with the results of this evaluation.	Complied with ☐ Partially complied with ☐ Not complied with V	In the reporting year, there were no independent members in the composition of the Board of Directors. In December 2017, two candidates for independent directors to be elected at the extraordinary General Meeting of Shareholders in 2018 were proposed to the company's shareholders.
2.5	**The Chairman of the Board of Directors shall facilitate the most effective fulfillment 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. 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.	Complied with ☐ Partially complied with ☐ Not complied with V	In the reporting year, there were no independent members in the composition of the Board of Directors. In December 2017, two candidates for independent directors to be elected at the extraordinary General Meeting of Shareholders in 2018 were proposed to the company's shareholders.

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.	Complied with ☐ Partially complied with ☑ V Not complied with ☐	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, however, this evaluation was not reflected in the disclosed decisions of the Board of Directors. The company plans to eliminate these omissions in the future.
2.5.3	The Chairman of the Board of Directors takes the necessary measures to provide the members of the Board of Directors in a timely manner with the necessary information 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 in a timely manner with materials on the Agenda items of the Meeting of the Board of Directors.	Complied with ☐ Partially complied with ☑ V Not complied with ☐	The Chairman of the Board of Directors takes the necessary measures to provide the members of the Board of Directors in a timely manner with the necessary information to adopt decisions on Agenda items in accordance with the recommendations of the Corporate Governance Code. This obligation is not fixed in the internal documents of the company. In 2018, the company plans to approve such a document.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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 framework of usual business risks.	1. The internal documents of the company establish that 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 the committee of the Board of Directors before starting discussion on the relevant agenda issue. 2. The internal documents of the company stipulate that members of the Board of Directors shall abstain from voting on any issue where there is a conflict of interest. 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.	Complied with ☐ Partially complied with ☐ Not complied with V	Members of the Board of Directors in order to avoid conflicts of interest at meetings, observe the specified obligations. But there are no internal documents providing for their observance in the Company. In 2018, the Company plans to approve such documents.
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 the rights and obligations of the members of the Board of Directors.	Complied with ☐ Partially complied with ☐ Not complied with V	In 2018, the Company plans to adopt and approve an internal documents establishing and clearly setting forth the rights and obligations of the members of the Board of Directors.

2.6.3	The members of the Board of Directors have enough time to fulfill their obligations.	1. Individual attendance at the meetings of the Board and committees and the time allocated for the preparation of 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. 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.	Complied with ☐ Partially complied with ☑ Not complied with ☐	Members of the Board of Directors comply with these obligations. In 2018, the company plans to approve an internal document that provides for their compliance.
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 the 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. 2. The company has a formal program of informational meetings for newly elected members of the Board of Directors.	Complied with ☐ Partially complied with ☑ Not complied with ☐	Members of the Board of Directors have these rights. In 2018, the company plans to approve an internal document that consolidates such rights.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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	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.	Complied with ☐ Partially complied with ☑ Not complied with ☐	The Board of Directors held 4 meetings in 2017. Meetings of the Board of Directors were held as necessary, taking into account the scope of activities and the tasks facing the Company in a certain period of time. In the future, the board of directors plans to strictly adhere to the recommendations of the Corporate Governance Code in terms of the number of meetings held in the reporting year.
2.7.2	The internal documents of the company establish the procedure for preparing and conducting meetings of the Board of Directors and provide for the opportunity of 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.	Complied with ☐ Partially complied with ☐ Not complied with ☑	In 2018, the Company plans to approve an internal document specifying the procedure for preparing and conducting meetings of the Board of Directors, which also established that notice of the meeting should be made, as a rule, no less than 5 days before the date of its holding. Prior to the approval of this document, the Chairman of the Board of Directors takes measures to ensure the timely provision of materials to the members of the Board of Directors on the agenda of the Board of Directors meeting in accordance with the recommendations of the Corporate Governance Code.

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 Board meetings held by personal attendance.	Complied with V Partially complied with Not complied with	
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.	Complied with V Partially complied with Not complied with	
2.8	**The Board of Directors shall establish committees for preliminary consideration of the most important issues of the company's activities.**			

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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. 2. The internal documents of the company determine the objectives of the Audit Committee, including objectives from recommendation 172 of the Code. 3. At least one member of the Audit Committee who is an independent director has experience and knowledge in the preparation, analysis, assessment, and audit of accounting (financial) reports. 4. Meetings of the Audit Committee were held at least once a quarter during the reporting period.	Complied with ☐ Partially complied with ☐ Not complied with V	Formation of an Audit Committee is planned in 2018.
2.8.2	A Remunerations 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 the formation of effective and transparent practices of remuneration.	1. The Board of Directors has established a Remunerations Committee that consists only of independent directors. 2. The Chairman of the Remunerations Committee is an independent director who is not the Chairman of the Board of Directors. 3. The internal documents of the company define the objectives of the Remunerations Committee, including objectives from recommendation 180 of the Code.	Complied with ☐ Partially complied with ☐ Not complied with V	The creation of a Remuneration Committee is planned in 2018.

2.8.3	A Nomination (HR, Appointment) Committee, the majority of whose members are independent directors, has been created for the 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 in another Committee), the majority of whose members are independent directors. 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.	Complied with ☐ Partially complied with ☐ Not complied with ☑	The creation of a Nomination Committee or another committee that performs similar functions is planned in 2018.
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 Management 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 appropriateness of the membership of its committees to the objectives of the Board of Directors and the goals of the company's activities. Additional committees have been either created or deemed unnecessary.	Complied with ☐ Partially complied with ☐ Not complied with ☑	The creation of committees of the Board of Directors is planned in 2018.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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. 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 Remunerations Committee can attend committee meetings only on invitation of the Chairman of the committee in question.	Complied with ☐ Partially complied with ☐ Not complied with V	The creation of committees of the Board of Directors is planned in 2018. Also, special attention will be paid to the composition of such committees and documents regulating their activities.
2.8.6	Chairpersons shall regularly inform the Board of Directors and its Chairperson on the activities of their committees.	1. During the reporting period, the chairpersons shall regularly report on the activities of their committees to the Board of Directors.	Complied with ☐ Partially complied with ☐ Not complied with V	The creation of committees of the Board of Directors is planned in 2018. Also, special attention will be paid to the composition of such committees and documents regulating their activities.
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 conformity of their activities with the developmental needs of the company as well as to intensify the activities of the Board of Directors to detect 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. 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.	Complied with ☐ Partially complied with ☐ Not complied with ☑	In 2018, a self-assessment of the work of the Board of Directors was conducted. However, the results of such an assessment were not reflected in the disclosed decisions of the Board of Directors. The Company plans to eliminate these omissions in the future.
2.9.2	Performance of the Board of Directors and the committees and 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.	Complied with ☐ Partially complied with ☐ Not complied with ☑	The Board of Directors of the Issuer has existed for less than three years, so an independent assessment of the quality of the work of the Board of Directors has not yet been conducted. In the future, the Board of Directors plans to conduct an independent assessment of the quality of its work.
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.**			

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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. 2. The company website and annual report shall contain the biography of the Corporate Secretary with the same level of detail as that of members of the Board of Directors and the executive management of the company.	Complied with [ ] Partially complied with [ ] Not complied with [V]	In 2017, the issuer did not have a Corporate Secretary position. In 2018, the issuer's Board of Directors elected a Corporate Secretary with the sufficient knowledge, experience, qualifications to perform the obligations imposed on them. Also, the board of directors plans to adopt and disclose the provision on the Corporate Secretary of the issuer and include biographical information about them in the annual report for 2018.
3.1.2	The Corporate Secretary shall have sufficient independence from executive bodies of the company as well as the authorities and resources required to perform their tasks.	1. The Board of Directors shall approve the assignment, dismissal, and additional remuneration for the Corporate Secretary.	Complied with [ ] Partially complied with [V] Not complied with [ ]	The fulfillment of these requirements is carried out by the Board of Directors in full in 2018.
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 executive employees 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 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 members of the Board of Directors, executive bodies, and other key managers that clearly defines approaches to the remuneration for said officers.	Complied with ☐ Partially complied with V Not complied with ☐	The issuer's policy meets the specified requirements. A document reflecting such a policy is planned to be developed and approved in 2018.
4.1.2	The remuneration policy of the company was drafted by the Remunerations Committee and approved by the Board of Directors. The Board of Directors, assisted by the Remunerations Committee, shall provide supervision over the introduction and implementation of the remuneration policy and, if needed, review and make amendments thereto.	1. During the reporting period, the Remunerations Committee considered the remuneration policy (policies) and implementation practices and submitted appropriate recommendations to the Board of Directors where applicable.	Complied with ☐ Partially complied with ☐ Not complied with V	The issuer's policy meets the specified requirements. A document reflecting such a policy is planned to be developed and approved in 2018.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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 managers of the company and also regulates all payments, benefits, and privileges provided to the officers mentioned above.	1. The company's Remuneration Policy (Policies) contain(s) transparent mechanisms for determining the amount of remuneration for members of the Board of Directors, executive bodies, and other key managers of the company and also regulate(s) all payments, benefits, and privileges provided to the officers mentioned above.	Complied with ☐ Partially complied with ☐ Not complied with V	The issuer's policy meets the specified requirements. A document reflecting such a policy is planned to be developed and approved in 2018.
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 members of the Board of Directors, 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 members of the Board of Directors, executive bodies, and for other key managers of the company.	Complied with ☐ Partially complied with ☐ Not complied with V	The issuer did not develop a reimbursement (compensation) policy. The issuer plans to consider this issue in 2018.
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. The company shall not use short-term motivation or additional material incentives in relation to 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.	Complied with ☐ Partially complied with ☐ Not complied with V	In 2018, the company developed the Regulation On Remuneration to the Members of the Board of Directors, which provides for full compliance with these conditions. This provision will be proposed for approval to the annual General Meeting of Shareholders.
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.	Complied with ☐ Partially complied with V Not complied with ☐	This condition is partially complied with, because the Company did not adopt a document reflecting the policy on remuneration. The development and adoption of this document is planned in 2018.
4.2.3	The company shall not provide any additional payments or compensations in the case of the early termination of powers of 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 the case of the early termination of powers of members of the Board of Directors due to a change of control over the company or other circumstances.	Complied with V Partially complied with ☐ Not complied with ☐	

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
4.3	**The system for remuneration for members of executive bodies and other key executive employees 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 members of executive bodies and other key executive employees 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 company performance results and the personal (individual) contribution of the 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 members of executive bodies and other key executive employees. 2. In the course of the last assessment of the system for the remuneration for the members of executive bodies and other key executive employees, the Board of Directors (Remunerations Committee) ascertained that the company uses an effective ratio between the fixed and variable parts of remuneration. 3. The company applies a procedure that ensures the return of bonuses wrongly obtained by members of executive bodies and other key executive employees.	Complied with ☐ Partially complied with ☑ V Not complied with ☐	In assessing the work of members of executive bodies and other key executive employees, the Board of Directors adheres to these recommendations. In 2018, the Board of Directors plans to fix such recommendations in the internal documents of the company.

4.3.2	The company has implemented a long-term incentive program for members of executive bodies and other key executive employees 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 members of executive bodies and other key executive employees using company shares (financial instruments based on company shares). 2. The long-term incentive program for members of executive bodies and other key executive employees 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.	Complied with ☐ Partially complied with ☐ Not complied with V	In 2018, the company plans to consider the implementation of a long-term incentive program for members of executive bodies and other key executive employees using company shares.
4.3.3	The amount of compensation (golden parachute) paid to the members of executive bodies or key executive employees in the case of the early termination of their powers at the initiative of the company, provided there have been no unethical acts on the part of the officers mentioned, shall not exceed double the amount of the fixed part of their annual remuneration.	1. The amount of compensation (golden parachute) paid to the members of executive bodies or key executive employees during the reporting period in the case of the early termination of their powers at the initiative of the company, provided there have been no unethical acts on the part of the officers mentioned, did not exceed double the amount of the fixed part of their annual remuneration.	Complied with V Partially complied with ☐ Not complied with ☐	

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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 the internal control system in the company.	1. The functions of the Company's various executive bodies and units in the risk management system and internal control have been clearly defined in the internal documents/relevant policy approved by the Board of Directors.	Complied with ☐ Partially complied with ☐ Not complied with ☑	In 2018, the issuer plans to adopt internal documents defining principles and approaches to the organization of risk management and the internal control system in the Company.
5.1.2	The executive bodies of the company shall ensure the 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.	Complied with ☑ Partially complied with ☐ Not complied with ☐	

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 admissibility of the risks accepted by the company.	1. The company has approved an anticorruption policy. 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.	Complied with V Partially complied with Not complied with	
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.	Complied with V Partially complied with Not complied with	
5.2	**To conduct a systematic independent assessment of the reliability and effectiveness of the risk management and internal control system and corporate management practices, the company shall arrange for internal auditing.**			

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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 subordinate to the Board of Directors or the Audit Committee or engaged an independent external organization following the same accountability principle.	Complied with ☐ Partially complied with ☐ Not complied with V	It is planned to create a separate structural division of internal audit in 2018.
5.2.2	The internal audit unit shall conduct an assessment of the 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. 2. The company uses generally accepted approaches to internal control and risk management.	Complied with ☐ Partially complied with ☐ Not complied with V	It is planned to create a separate structural division of internal audit in 2018.
6.1	**The company and its activities are transparent to the shareholders, 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. 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.	Complied with ☐ Partially complied with ☑ Not complied with ☐	The Board of Directors adheres to the recommendations of the Corporate Governance Code on compliance with information policy. A separate document reflecting the provisions of the information policy is planned to be adopted in 2018.
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. 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). 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.	Complied with ☑ Partially complied with ☐ Not complied with ☐	

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
6.2	**The company shall disclose full, relevant, and reliable information on the company in a timely manner to provide the shareholders of the company and investors with the 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. 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. 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.	Complied with V Partially complied with ☐ Not complied with ☐	

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. 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.	Complied with V Partially complied with Not complied with	
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. 2. The annual report contains information about environmental and social aspects of the company's activities.	Complied with V Partially complied with Not complied with	
6.3	**The company provides information and documents at the request of shareholders in accordance with the principles of equal and unhindered access.**			

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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.	Complied with [V] Partially complied with [ ] Not complied with [ ]	
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. 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.	Complied with [V] Partially complied with [ ] Not complied with [ ]	
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, acquisition 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. The making of 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 law to the competence of the General Meeting of Shareholders, the Board of Directors shall provide shareholders with appropriate recommendations. 2. The Charter of the company deems at least the following actions to be significant corporate actions: reorganization of the company, acquisition 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.	Complied with ☐ Partially complied with ☑ V Not complied with ☐	The provisions of the Company's charter fully comply with the current legislation of the Russian Federation. Such significant events as reorganization of the Company, acquisition 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, are reserved by the Company's charter to the supreme governing body of the Company, it determines the significance of these events. These significant events have not been singled out in a separate article of the Company's charter.

N	Corporate Governance Principles	Criteria for assessing compliance with corporate governance principles	Status of compliance with corporate governance principles	Explanations of deviations from the criteria for assessing compliance with corporate governance principles
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.	Complied with ☐ Partially complied with ☐ Not complied with ☑	In 2017, the Board of Directors did not have independent directors. After election in 2018 independent directors make 1/3 of structure of the Board of Directors of the Company. In its work, the Board of Directors relies on the position of independent directors of the Company, including on significant corporate events prior to their approval.
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 takes additional measures to protect the 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. 2. During the reporting period, all significant corporate actions underwent the approval procedure before they were taken.	Complied with ☐ Partially complied with ☑ Not complied with ☐	The company's charter does not set minimum criteria for classifying the company's transactions as significant corporate transactions that are lower than the minimal criteria determined by the law, but all significant corporate actions were approved before they were implemented.

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 the opportunity to influence such actions, and guarantees the observation and adequate protection of their rights when such actions are taken.**			
7.2.1	Information on significant corporate actions includes the reasons, conditions, and 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.	Complied with [V] Partially complied with [ ] Not complied with [ ]	
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 an interested party transaction. 2. The internal documents of the company stipulate the procedure for engagement of an independent appraiser to determine the value of share acquisition and repurchase. 3. The company's internal documents stipulate an extended list of grounds for deeming members of its Board of Directors and other persons specified by the law to be parties interested in the company's transactions.	Complied with [ ] Partially complied with [V] Not complied with [ ]	The obligation of the Company to attract an independent auditor to determine the value of property disposed or acquired by a major transaction or an interested party transaction, to assess the cost of acquiring and repurchasing the company's shares is provided for in the current legislation of the Russian Federation. Internal documents of the company do not separately provide for a procedure, nor do they expand the list of grounds on which members of the company's Board of Directors and other persons stipulated by law are recognized as interested in transactions of the company.

Appendix 2

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PJSC Evropeyskaya Elektrotekhnica

Combined financial statements of PJSC Evropeyskaya Elektrotekhnica and entities under common control for the year ended 31 December 2017

Moscow
2018

CONTENTS

PJSC EVROPEYSKAYA ELEKTROTEKHNICA AND ENTITIES UNDER COMMON CONTROL

STATEMENT OF RESPONSIBILITIES OF MANAGEMENT FOR THE PREPARATION AND APPROVAL OF THE COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The following statement, which is to be read together with the auditor's report establishing the auditors' responsibility, is made in order to divide the responsibilities of management and auditors with respect to the combined financial statements of PJSC Evropeyskaya Elektrotekhnica.

Management is responsible for the preparation of the combined financial statements of PJSC Evropeyskaya Elektrotekhnica and its subsidiaries (together referred to as the Group) which present fairly the financial position of PJSC Evropeyskaya Elektrotekhnica as at 31 December 2017, its financial performance, its cash flows and its changes in equity for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

In preparing the combined financial statements management is responsible for:

- accurate choice and application of accounting policies;
- information presentation, including accounting policies to the extent that allows estimating truthfulness, reliability and comparability of information;
- additional information disclosure in case the compliance with the particular IFRS requirements is insufficient for users to understand influence of certain transactions, other events and conditions on the financial position and financial performance;
- assessing the ability of the Group to continue as a going concern.

Management is also responsible for:

- development, implementation and maintenance of an efficient and reliable internal control system in all entities of the Group;
- accounting, which allows reporting and explaining transactions of the Group and present information about the combined financial position of the Group with sufficient precision and provides compliance of the combined financial statements of the Group with IFRS;
- accounting in accordance with the Russian legislation and Russian accounting rules;
- taking action within its competence in order to ensure safety of the Group's assets; and
- prevention and detection of fraud and other abuse.

The combined financial statements of PJSC Evropeyskaya Elektrotekhnica for 2017. Approved by management on 3 May 2018.

On behalf of management:

Kalenkov I.A.

____

Chief Executive Officer
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

Baskova M.V.

____

Chief Accountant
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

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Grant Thornton

AUDITOR’S REPORT

Opinion

We have audited the accompanying combined financial statements of Public Joint-Stock Company Evropeyskaya Elektrotekhnica (PJSC Evropeyskaya Elektrotekhnica) and entities under common control of its shareholders (the Group), which comprise the combined balance sheet as at 31 December 2017, and the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Group as at 31 December 2017, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Combined 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 are in accordance 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.

Key audit matters

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

Group’s structure

We consider this issue to be significant to the audit due to the importance of management’s judgments used in determining the perimeter of companies included in the combined financial statements of the Group.

We assessed the consistency of application of the accounting policy on this issue.

We analysed the structure of the Group, assessed the methodology used by the Group’s management in preparing the combined financial statements of the Group, including the management of Evropeyskaya Elektrotekhnica – North-West LLC.

We analysed the documents, including the terms of fiduciary management agreements, as well as events after the reporting date, and considered that the management’s methodology used for preparing the combined financial statements of the Group do not conflict with IFRS.

Information on the structure of the Group is disclosed in Note 1 "General information about PJSC Evropeyskaya Elektrotekhnica and entities under common control" to the combined financial statements of the Group.

Information on the principles applied for the preparation of combined statements of the Group and entities under common control is disclosed in Note 4 "Significant Accounting Policies" to the combined financial statements of the Group.

Information on events after the reporting date that occurred in the ownership structure within the Group is disclosed in Note 29 "Events after the reporting date" to the combined financial statements of the Group.

Related Party Transactions

We consider this issue to be important to the audit due to the fact that related party transactions are significant.

Our audit procedures included the examination of the terms of related party transactions and the analysis of related risks and rewards.

Based on the results of the conducted procedures, we came to the conclusion that information on related party transactions disclosed in the combined financial statements of the Group complies with the terms of the contracts.

Information on related party transactions is disclosed in Note 27 "Related party transactions" to the combined financial statements of the Group.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report of PJSC Evropeyskaya Elektrotekhnica for 2017 and the quarterly issuer's report for the second quarter of 2018 but does not include the combined financial statements and our auditor's report thereon. The annual report of PJSC Evropeyskaya Elektrotekhnica for 2017 and the Quarterly issuer's report are expected to be made available to us after the date of this auditor's report.

Our opinion on the combined 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 combined financial statements, our responsibility is to read the other information when provided and, in doing so, consider whether the other information is materially inconsistent with the combined financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Other matter

The combined financial statements of PJSC Evropeyskaya Elektrotekhnica for the period from 1 January to 31 December 2016 was audited by other auditor (CJSC Audit Company Institute for Enterprise Issues) which provided unmodified opinion on these statements and which report was issued on 26 May 2017.

Responsibilities of management and those charged with governance for the combined financial statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, 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 governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the combined financial statements

Our objectives are to obtain reasonable assurance about whether the combined 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 combined financial statements.

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

• identify and assess the risks of material misstatement of the combined 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;

• 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 the Group's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group's management;

• 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 Group's ability 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 combined 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 Group to cease to continue as a going concern; evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

• obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined 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 those charged with governance 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 communicate with those charged with governance 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 those charged with governance 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 those charged with governance we determine those matters that were of most significance in the audit of the combined 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.

President of FBK, LLC

S.M. Shapiguzov
(by virtue of the Charter,
audit qualification certificate
01-001230, ORNZ 21606043397)

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ ФИНАНСОВЫЕ И БУХГАЛТЕРСКИЕ КОНСУЛЬТАНТЫ ФБК Г.Р. № 484583 г. МОСКВА

Engagement partner

Date of the Independent
Auditor's Report: 3 May 2018

V.A. Bakaev
(audit qualification certificate
01-001031, ORNZ 21606047616)

Audited entity

Name:

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

Address of the legal entity within its location:

1 Lyotchika Babushkina Ul., Building 3, Moscow, 129344, Russian Federation

Official registration:

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

Auditor

Name:

Limited Liability Company 'Accountants and business advisors' (FBK, LLC)

Address of the legal entity within its location:

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

Official registration:

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

Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association 'Sodruzhestvo'

Number in the register of self-regulatory organization of auditors:

Certificate of membership in the self-regulatory organization of auditors Association 'Sodruzhestvo' No.7198, number in the register – 11506030481

COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(in thousands of Russian rubles)

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016*
Revenue from sales	8	2,595,265	3,166,573
Cost of sales		(2,127,358)	(2,744,790)
GROSS PROFIT		**467,907**	**421,783**
Administrative and selling expenses	9	(268,405)	(275,844)
Other income (expenses)	10	107,355	(60,064)
OPERATING PROFIT		**306,857**	**85,875**
Finance income	11	33,599	44,329
Finance expense	12	(170,463)	(80,591)
Share of loss of associates		-	(5)
PROFIT BEFORE TAX		**169,993**	**49,608**
Income tax	13	(35,260)	(7,793)
PROFIT FOR THE YEAR		**134,733**	**41,815**
Other comprehensive income for the year, net of income tax		(39,386)	16,146
TOTAL COMPREHESIVE INCOME FOR THE YEAR		**95,347**	**57,961**
Earnings per share:			
basic (in Russian rubles)		0.27	0.23
diluted (in Russian rubles)		0.27	0.23

Kalenkov I.A.

Chief Executive Officer
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1167746062703
"ЕВРОПЕЙСКАЯ ЭЛЕКТРОТЕХНИКА"
* МОСКВА *

Baskova M.V.

Chief Accountant
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

* adjustment to the combined financial statements for 2016 (see Note 6)

Notes are an integral part of these combined financial statements

COMBINED STATEMENT OF FINANCIAL POSITION
(in thousands of Russian rubles)

	Note	31 December 2017	31 December 2016*
ASSETS			
Non-current assets			
Fixed assets	14	108,458	169,738
Long-term financial assets	15	1,256	1,769
Deferred tax assets	13	933	18
Total non-current assets		**110,647**	**171,525**
Current assets			
Inventories	16	100,390	95,686
Accounts receivable and prepayments	17	721,008	834,368
Short-term financial assets	15	12,554	18,473
Other current assets		520	422
Cash and cash equivalents	18	209,782	234,951
Total current assets		**1,044,254**	**1,183,900**
TOTAL ASSETS		**1,154,901**	**1,355,425**
LIABILITIES AND EQUITY			
Equity			
Share capital	19	610,000	610,000
Charter capital		-	-
Additional capital	19	129,468	-
Shares buy-back	19	(589,006)	-
Business combination reserve	19	141,440	(596,858)
Revaluation reserve	14	69,833	109,219
Retained earnings		179,793	91,967
Total equity		**541,528**	**214,328**
Non-current liabilities			
Long-term borrowings and loans	20	38,165	-
Long-term finance leases payable	22	50,640	50,918
Other non-current liabilities		-	148,979
Deferred tax liabilities	13	46,110	42,410
Total non-current liabilities		**134,915**	**242,307**
Current liabilities			
Short-term borrowings and loans	20	373	-
Accounts payable and estimated liabilities	21	441,933	679,637
Short-term finance leases payable	22	278	221
Net assets owned by participants	23	35,874	218,932
Total current liabilities		**478,458**	**898,790**
TOTAL EQUITY AND LIABILITIES		**1,154,901**	**1,355,425**

Kalenkov I.A.

Chief Executive Officer
PJSC Evropeyskaya Elektrotekhnica
3 May 2018

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1167746062703
"ЕВРОПЕЙСКАЯ ЭЛЕКТРОТЕХНИКА"
* МОСКВА *

Baskova M.V.

Chief Accountant
PJSC Evropeyskaya Elektrotekhnica
3 May 2018

* adjustment to the combined financial statements for 2016 (see Note 6)

Notes are an integral part of these combined financial statements

COMBINED STATEMENT OF CASH FLOWS
(in thousands of Russian rubles)

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016*
Cash flows from operating activities:			
Profit before tax		**169,993**	**49,608**
Adjustments to reconcile net profit to operating profit:			
Depreciation of fixed and intangible assets	14	15,047	13,936
Loss on disposal of non-current assets	14	856	-
Other operating income (expense)		(510)	43
Finance income (expense)		139,626	9,749
Exchange differences		(3,135)	26,608
Loss (gain on loss reversal) on impairment of accounts receivable		16,564	57,902
Cash flows from operating activities before working capital changes, income tax and changes in other assets and liabilities		**338,441**	**157,846**
Changes in working capital			
Decrease/(increase) in trade and other receivables		99,872	(153,614)
Increase in inventories	16	(4,704)	(65,770)
Increase /(decrease) in accounts payable and estimated liabilities		(307,736)	56,377
Income tax paid		(30,380)	(21,096)
Net cash used in operating activities		**95,493**	**(26,257)**
Cash flows from investing activities			
Purchases of fixed and intangible assets	14	(3,943)	(2,444)
Proceeds from sales of fixed assets	14	1,542	730
Loans issued		(180,641)	(18,290)
Loans collected		46,633	6,756
Acquisition of a subsidiary by an entity under common control		(136,000)	-
Interest received		17,798	27,033
Net cash from investing activities		**(254,611)**	**13,785**
Financing activities			
Finance lease payments	22	(14,451)	(11,947)
Proceeds from sales of shares		169,307	-
Changes in charter capital	19	-	10,000
Dividends and similar payments to shareholders	19.22	(21,664)	(51,580)
Net cash from financing activities		**133,192**	**(53,527)**

* adjustment to the combined financial statements for 2016 (see Note 6)

Notes are an integral part of these combined financial statements

COMBINED STATEMENT OF CASH FLOWS
(in thousands of Russian rubles)

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016*
Changes in cash and cash equivalents		**(25,926)**	**(65,999)**
Cash and cash equivalents at the beginning of the period	18	**234,951**	**306,317**
Effect of exchange rate changes on balances of cash and cash equivalents		757	(5,367)
Cash and cash equivalents at the end of the period	18	**209,782**	**234,951**

Kalenkov I.A.

Chief Executive Officer
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

Baskova M.V.

Chief Accountant
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

* adjustment to the combined financial statements for 2016 (see Note 6)

Notes are an integral part of these combined financial statements

PJSC EVROPEYSKAYA ELEKTROTEKHNICA AND ENTITIES UNDER COMMON CONTROL

COMBINED STATEMENT OF CHANGES IN EQUITY
(in thousands of Russian rubles)

	Share capital	Charter capital	Business combination reserve	Revaluation reserve	Retained earnings	Total equity
As at 1 January 2016 *	**10,000**	**3,142**	-	**93,073**	**120,464**	**226,679**
Net profit for the current period	-	-	-	-	41,815	**41,815**
Revaluation reserve (see Note 14)	-	-	-	16,146	-	**16,146**
Dividends and similar payments to shareholders (see Note 19, 22)	-	-	-	-	(51,580)	**(51,580)**
Distribution of business combination reserve (see Note 19)	-	(3,142)	(596,858)	-	-	**(600,000)**
Share capital change (see Note 19)	**600,000**	-	-	-	-	**600,000**
Transfer of net assets of the entities under common control to liabilities	-	-	-	-	(18,732)	**(18,732)**
As at 31 December 2016	**610,000**	-	**(596,858)**	**109,219**	**91,967**	**214,328**

* adjustment to the combined financial statements for 2016 (see Note 6)

Notes are an integral part of these combined financial statements

PJSC EVROPEYSKAYA ELEKTROTEKHNICA AND ENTITIES UNDER COMMON CONTROL

COMBINED STATEMENT OF CHANGES IN EQUITY

(in thousands of Russian rubles)

	Share capital	Additional capital	Business combination reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2017	**610,000**	**-**	**(596,858)**	**109,219**	**91,967**	**214,328**
Net profit for the current period	-	-	-	-	134,733	**134,733**
Revaluation reserve (see Note 14)	-	-	-	(39,386)	-	**(39,386)**
Shares buy-back (see Note 19)	-	-	-	(589,006)	-	**(589,006)**
Dividends and similar payments to shareholders (see Note 22)	-	-	-	-	(21,664)	**(21,664)**
Additional capital (see Note 19)	-	129,468	-	-	-	**129,468**
Acquisition of entities under common control (see Note 19)	-	-	738,298	-	(22,980)	**715,318**
Transfer of net assets of the entities under common control to liabilities	-	-	-	-	(2,263)	**(2,263)**
As at 31 December 2017	**610,000**	**129,468**	**141,440**	**(519,173)**	**179,793**	**541,528**

Kalenkov I.A.

Chief Executive Officer
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1167746062703 * МОСКВА *
"ЕВРОПЕЙСКАЯ ЭЛЕКТРОТЕХНИКА"

Baskova M.V.

Chief Accountant
PJSC Evropeyskaya Elektrotekhnica

3 May 2018

* adjustment to the combined financial statements for 2016 (see Note 6)

Notes are an integral part of these combined financial statements

(in thousands of Russian rubles)

1. GENERAL INFORMATION ON PJSC EVROPEYSKAYA ELEKTROTEKHNICA, ITS SUBSIDIARIES AND ENTITIES UNDER COMMON CONTROL

PJSC Evropeyskaya Elektrotekhnica (the Company), its subsidiaries and entities under common control (together referred to as the Group) is an engineering and production company which operates in the Russian Federation, CIS countries and abroad. The main areas of the Group's activities are production and installation of transformer substations and low-voltage completed devices, production of electric heating systems, delivery of electric materials and equipment for electricity and power supply systems, design, installation and commission works. Since 2017 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 management of the Group started the process of legal restructuring 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 – PJSC Evropeyskaya Elektrotekhnica (the Company), which was established by the decision of the only participant on 22 December 2015.

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

As at 31 December 2017 and 31 December 2016 Kalenkov I.A. and Dubenok S.N. controlled the Group.

The functions of the Company'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 2017 the Group comprises the following subsidiaries and entities under common control:

Entity of the Group	Percent of charter capital			Location	Principal activities
	Evropeyskaya Elektrotekhnica	Kalenkov I.A.	Dubenok S.N.		
Evropeyskaya Elektrotekhnica EC LLC	100%	-	-	17 Marshala Timoshenko Ul., Room 9, Building 2, Moscow, 121359	wholesale trade of non-food products (OKVED 46.4)
Evropeyskaya Elektrotekhnica – North-West LLC	-	50	50	47A Stachek Pr., Saint Petersburg, 198097	wholesale trade of other building materials and products (OKVED 46.73.6)

Entity of the Group	Percent of charter capital			Location	Principal activities
	Evropeyskaya Elektrotekhnica – North-West LLC	Kalenkov I.A.	Dubenok S.N.		
Evropeyskaya Elektrotekhnica LLC	99	0,5	0,5	22 Kashirskoye Sh., Room 4, Building 3, Moscow 115201	wholesale trade of other household goods (OKVED 46.49)

As at 31 December 2016 the Group comprises the following subsidiaries and entities under common control:

(in thousands of Russian rubles)

Entity of the Group	Percent of charter capital			Location	Principal activities
	Evropeyskaya Elektrotekhnica	Kalenkov I.A.	Dubenok S.N.		
Evropeyskaya Elektrotekhnica EC LLC	100%	-	-	17 Marshala Timoshenko Ul., Room 9, Building 2, Moscow, 121359	wholesale trade of non-food products (OKVED 46.4)
Evropeyskaya Elektrotekhnica – North-West LLC	-	50	50	47A Stachek Pr., Saint Petersburg, 198097	wholesale trade of other building materials and products (OKVED 46.73.6)
Evropeyskaya Elektrotekhnica LLC	-	50	50	65 Varshavskoye Highway, Room 1D, Office II, Building 2, Moscow, 115230	wholesale trade of other household goods (OKVED 46.49)

Evropeyskaya Elektrotekhnica EC LLC was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service № 46 in Moscow on 5 May 2008 under principal state registration number 1087746603340, state registration certificate series 77 № 010745956.
The basis for recognition of the company as a subsidiary: interest of PJSC Evropeyskaya Elektrotekhnica in charter capital is 100%.

Evropeyskaya Elektrotekhnica – North-West LLC was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service № 15 in Saint Petersburg on 6 September 2005 under principal state registration number 1057812310269, state registration certificate series 78 № 005598835.
The basis for recognition of the company as a subsidiary: interest of owners of PJSC Evropeyskaya Elektrotekhnica in charter capital is 100%.

Evropeyskaya Elektrotekhnica LLC was registered with the Interdistrict Inspectorate of the Russian Federal Tax Service № 46 in Moscow on 14 August 2014 under principal state registration number 1147746927790, state registration certificate series 77 № 017324559.
The basis for recognition of the company as a subsidiary: interest of Evropeyskaya Elektrotekhnica – North-West LLC, which is an entity under common control of PJSC Evropeyskaya Elektrotekhnica, in charter capital is 99%.

The combined financial statements of the Group are prepared according to the principles set out in Section 4.2.

2. ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The economy of the Russian Federation displays certain characteristics of an emerging market. 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, situation 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.

3. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENT

3.1. Confirmation of compliance

Combined financial statements of the Group are prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board and effective in the reporting period.

Each enterprise of the Group keeps individual records and prepares financial statements in accordance with Russian accounting rules (RAR). These combined financial statements are prepared on the basis of accounting data according to RAR which were adjusted and reclassified for fair presentation of information in accordance with the IFRS requirements.

3.2. Basis for assessment

The combined financial statements have been prepared under the historical cost convention except for certain property and financial instruments, which are recognized at revalued amount or fair value as specified 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 liability the Group takes into consideration characteristics of an asset or liability as if they have been taken into consideration by market participants. In these combined financial statements for the purposes of estimation and/or disclosures fair value is determined as mentioned above except for share-based payments which are covered by IFRS 2, leasing transactions regulated by IAS 17 and estimates comparable but not equal to fair value (e.g., net selling price when assessing inventories under IAS 2 or value in use when assessing impairment under IAS 36).

3.3. Functional currency and presentation currency

The currency of the primary economic environment in which the company operates, the Russian Federation (the Russian ruble), is the functional currency of PJSC Evropeyskaya Elektrotekhnica, its subsidiaries and entities under common control. The combined financial statements of the Group are presented in thousands of Russian rubles unless otherwise stated.

Preparing the financial statements transactions in currencies other than functional currency (i.e. in foreign currency) are recognized at the exchange rate as at the transaction date. Monetary items denominated in foreign currency are translated using the exchange rate at the date of statements preparation. Non-monetary items denominated in foreign currency and carried at fair value are due to translation at the exchange rates as at the date when fair value was determined. Non-monetary items carried at historical cost in a foreign currency are not translated.

Exchange differences on monetary items caused by changes in exchange rates are recognized in profit or loss in the period of their origination.

Exchange rates of the currencies in which the Group made transactions were the following:

	31 December 2017	31 December 2016
Closing price – [RUB]		
1 US dollar	57.6002	60.6569
1 Euro	68.8668	63.8111

(in thousands of Russian rubles)

	Weighted average exchange rate from 1 January 2017 to 31 December 2017
Average exchange rate in 2017 – [RUB]	
1 US dollar	58.3529
1 Euro	65.9014

	Weighted average exchange rate from 1 January 2016 to 31 December 2016
Average exchange rate in 2016 – [RUB]	
1 US dollar	67.0349
1 Euro	74.231

3.4. Going concern

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

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

The combined financial statements for 2017 were authorized for issue on 3 May 2018.
Subsequent events were analysed to 3 May 2018 inclusively – the date of issue of these combined financial statements.

4. 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.

4.1. Key features of combined financial statements in comparison to statements prepared in accordance with Russian accounting standards.

These combined financial statements differ from financial statements, prepared in accordance with Russian accounting standards, because they recognize some adjustments, that were not recorded in the Company's accounting, but which are necessary for reporting its financial position, its financial performance and its cash flows in accordance with IFRS. The key adjustments concern (1) recognition of certain expenses; (2) valuation of fixed assets and amortization; (3) deferred income tax; (4) revaluation of unrealized assets; (5) recognition of time value of money; (6) principles of consolidation; (7) recognition and disclosure of guarantees, commitments and certain contingencies; (8) business combination and goodwill.

4.2. Principles of preparation of the combined financial statements

For the purpose of preparation of the combined financial statements of the Group business combinations of companies under control of the same shareholders, that control the Group, are recognized by pooling of interest method (also known as predecessor value method). In accordance with this method business combination is recognized as if respective acquisition transaction took place at the earliest of the two dates – at the beginning of the earliest comparative periods presented in the consolidated financial statements under IFRS or at the date of establishing general control over the acquired company.

The difference between carrying value of net assets and amount of remuneration paid under business combination transaction between the entities under common control is recorded in the combined financial statements as part of capital of the Group in the balance sheet line "Business combination reserve".

Consolidated financial statements are first prepared for subsidiaries included in the combined financial statements.

4.3. Consolidation

Subsidiaries are those companies, in which the Group directly or indirectly owns more than half of the voting shares, or has another opportunity to control the financial and operating policy. Subsidiaries are recognized in the combined financial statements from the date on which control is effectively transferred to the Group and are derecognized from the date on which control ceases.

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

Merger of entities under common control is a business combination if all entities included in the combined statements are under common control of one or several parties before and after the business combination and such control is not temporary. Such transactions are recorded with the pooling of interests method, and assets and liabilities acquired are initially recorded in the financial statements of the acquiring company at the book value in the financial statements of the previous owner.

Net assets of limited liability companies, are included in the liabilities of the Group.

4.4. Business combination

Business combinations are accounted for using the acquisition method.

The date of acquisition is the date when the company gets actual control over the acquiree.

The cost of an acquisition is measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination transaction the Company measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are recognized as administrative expenses.

Contingent consideration to be transferred by acquirer must be recognized at the acquisition date fair value. Subsequent revisions of the fair value of contingent consideration, classified as an asset or liability, if they arose upon expiration of the period for completing the measurement, are recognized in profit or loss for the period. Contingent consideration classified as part of equity is not revalued.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized 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 recognized 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 recognized in profit or loss for the period.

4.5. Associates

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

Carrying amount of investments in associates increases or decreases 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 comprehensive income of the associate is recognized 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 amount of investments.

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

The Company's share in loss of the associate is recognized not only within the carrying amount of investments in this associate, but also taking into account other long-term investments, which, in fact, form investments in the associate, for example, loans. If the share in losses exceeds the carrying amount of investments in the associate and cost of other long-term investments, related to this associate, the Company suspends further recognition of share in loss after reaching the zero value of this carrying amount. At the same time additional losses are secured and liabilities are recognized only to the extent of the Company's assumed legal obligations or obligations, arising from established practice, or payments made on behalf of the associate.

If the associate generates profit, the Company will proceed to recognize its share in this profit only after it will be equal to the share of unrecognized losses.

The carrying value of an investment in the associate is tested for impairment by comparing its recoverable amount (the greater of value in use and fair value less costs to sell) with its carrying value in all cases when impairment indicators are detected.

4.6 Revenue recognition

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

4.6.1 Sale of goods

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

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

In particular, revenue from sale of goods is recognized when goods are supplied and ownership is transferred.

4.6.2 Services, works, fees

Revenue from provision of services is recorded based on reference to completion. The stage of completion of services provided is defined as follows:

- the charge for installation is recognized based on the stage of completion of the installation work, defined as the share of the total period necessary for the completion of the installation passed at the reporting date;
- maintenance charge included in the price of the good is recognized on the basis of the share of the total costs of maintenance of the good sold;
- revenue under hourly rate contracts and compensation of direct costs is recognized at the rates established in the contract as the work is performed and direct costs are incurred.

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

4.6.3 Royalties

Revenue from royalties is recognized on accrual basis proceeding from the essence of the respective agreement (if the Group is likely to receive economic benefits and the amount of revenue can be measured reliably). Fixed royalties are recognized on a straight-line basis over the period of agreement. Royalties depending on the volume of production, sales or other indicators are recognized taking into account the fulfilment of the relevant conditions.

4.6.4 Dividends and interest income

Dividend income is recognized 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 recognized, if the Group is likely to receive economic benefits and the amount of revenue can be measured reliably. Interest income is calculated basing on carrying value of the financial asset (excluding interest) and the effective interest rate (EIR) that is calculated in such a way as to ensure discounting of expected future cash flows over the expected period until the financial asset is settled to its net carrying value at the time of recognition.

4.7 Leases

Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as financial leases. All other leases are recognized as operating leases.

4.7.1 The Group as lessor

Lease receivables are recognized in accounts receivable at value equal to 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 recognized 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 recognized as expense on a straight-line basis over the lease term.

4.7.2 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. The corresponding liabilities to the lessor are reported in the combined statement of financial position as finance lease commitments.
The amount of lease payments is distributed between the finance expense and the reduction of the lease commitments in such a way as to obtain a constant interest rate on commitment balance. Finance expense is recorded in profit or loss, if they do not directly relate to qualifying assets. In the latter case they are capitalized 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 period of the lease, unless another method of allocating costs does not correspond better to temporary distribution of economic benefits from leased assets. The contingent lease payments under operating leases are expensed as incurred.

Lease incentive payments received at the conclusion of operating leases are recognized as liabilities. The total amount of such incentives reduces lease expenses on a straight-line basis, unless another method of allocating costs does not correspond better to temporary distribution of economic benefits from leased assets.

4.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (qualifying asset) are capitalized as part of the cost of the respective assets until they get ready for its intended use or sale.

The income received as a result of 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 as part of profit or loss when incurred.

4.9 Costs of employee benefits and compensation

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 recognized 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 in accordance with the system of defined contributions to the pension fund. The Group's contributions to the State pension fund are recognized 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.

4.10 Income tax

Income tax expense includes current and deferred tax.

4.10.1 Current tax

The amount of current tax is determined by taxable profits for the year. Taxable profit differs from 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, as well as excludes income (expense) that are not subject to taxation (deduction). The amount of the current income tax is calculated at the rates approved by the legislation at the reporting date.

4.10.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities recorded in the statements and the corresponding tax accounting used in calculating taxable profits. Deferred tax liabilities (DTL), as a rule, are recognized taking into account all taxable temporary differences.

Deferred tax assets (DTA) are recorded taking into account 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 recognized in the statements if temporary differences arise from 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 recognized in the statements if temporary differences arise from the recognition of goodwill.

DTL are recognized taking into account 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 probable that the temporary differences will be reversed in the foreseeable future. DTA for subsidiaries and entities under common control and joint activities are recognized when there is a high probability of obtaining future taxable profits sufficient for the use of deductible temporary differences and the expectation of their use 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 effective 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 amount of assets and liabilities at the reporting date.

To measure DTA/DTL for investment property measured at fair value, it is presumed that the carrying value of 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 recovery of carrying value by using investment property in ordinary activities, rather than through sale. 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 recognize DTA/DTL for changes in the fair value of investment property, as these changes are not subject to income tax.

4.10.3 Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss except for those concerning transactions recorded in other comprehensive income or equity. In this case, current and deferred taxes are also recognized in other comprehensive income or in equity. Current and deferred taxes arising from business combinations are carried upon recognition of these transactions in the statements.

4.11 Fixed assets

Fixed assets except for office and warehouse premises are recognized at acquisition cost, net of accumulated depreciation and accumulated impairment losses.

Office and warehouse premises are recognized at remeasured value, which is its fair value at the date of remeasurement, net of subsequent accumulated depreciation and subsequent accumulated impairment losses. The remeasurement is performed with sufficient frequency to prevent a significant difference between the carrying value and the value which would have been determined using fair value at the end of the reporting period.

Depreciation is accrued on a straight-line basis over the estimated remaining useful lives in order to write off the actual value of fixed assets (excluding land and construction in progress) net of the residual value. The expected useful live, carrying value and depreciation method are analysed at each reporting date. At the same time, all changes in estimates are reflected in the statements prospectively.

The following useful lives are used in calculating depreciation.

Office and warehouse premises	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.

An item of fixed assets is written off when it is sold or when future economic benefits are not expected from the further use of the asset. The financial performance of the sale or other disposal of fixed assets is determined as the difference between the selling price and the carrying amount of fixed assets and is recognized in the combined statement of profit or loss.

4.12 Impairment of assets

The Group examines whether there is any indication of impairment of the carrying amount 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 individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset relates. The value of the Group's assets is distributed to individual CGUs or the smallest groups of CGUs for which a reasonable and consistent distribution method 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 using 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 recognized immediately in profit or loss, unless the asset is subject to regular revaluation. In this case, the impairment loss is treated as a decrease in the revaluation reserve.

4.13 Inventories

Inventories are recorded at the lower of the actual cost of acquisition and net realizable value. The cost of acquisition of inventories is determined using the weighted average method. The net realizable value is the estimated selling price of inventories less all expected costs of completion and selling expenses.
Management estimates the amount of the provision for impairment of inventories basing on the storage period. For inventories that are stored for more than 5 years, the provision is created in full amount; more than 4 years – in the amount of 75%; more than 3 years - in the amount of 50%; more than 2.5 years - in the amount of 25%. The provision is not created for inventories with a storage period of less than 2.5 years.

4.14 Formation of estimated liabilities

Estimated liabilities are recognized 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 recognized on the basis of the Group's best estimate of the amount necessary to its settlement at the reporting date, taking into account the risks and uncertainties specific to these liabilities.

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

If it is expected that payments required to settle liabilities will be partially or fully recovered by a third party, the corresponding receivables are recorded as an asset only if there is absolute certainty that the recovery will be received and there is a possibility to measure it reliably.

4.15 Financial instruments

Financial assets (FA) and financial liabilities (FL) are recognized when the Group's entity becomes a party to the contractual provisions of the financial instrument.

FAs and FLs are initially measured at fair value. Transaction costs directly related to the acquisition or issue of FAs and FLs (other than FAs and FLs measured at fair value through profit or loss) increase or decrease the fair value of FAs or FLs at initial recognition. Transaction costs directly related to the acquisition of FAs or FLs carried at fair value through profit or loss are recognized in profit or loss.

4.16 Financial assets

FAs are classified in the following categories: measured at fair value through profit or loss; held to maturity; available-for-sale; as well as loans and accounts receivable. FAs are classified at their initial recognition into one or another category depending on their characteristics and the purpose of acquisition. All standard purchases or sales of FAs are recognized at trade date. Standard purchases or sales are purchases or sales of FAs with delivery within the time frame established by regulation or market convention.

4.16.1 The effective interest method

The effective interest method is used to calculate the amortized 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 an integral part of the effective interest rate, transaction costs and other premiums or discounts) through 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 recognized.

Income on debt instruments is recorded using the effect interest method, with the exception of FAs measured at fair value through profit or loss.

4.16.2 FAs measured at fair value through profit or loss

FA is classified as measured at fair value through profit or loss, if it is either held for trading or designated at initial recognition in accounting as measured at fair value through profit or loss.

FA is classified as "held for trading" if:

- it is purchased with the main purpose of reselling it in the near future;
- upon initial recognition it is included in the portfolio of financial instruments managed by the Group as a single portfolio, for which there is a recent history of short-term purchases and resale or
- it is a derivative not designated as a hedging instrument in an effective hedging.

FA that is not held for trading can be designated as measured at fair value through profit or loss upon recognition if:

- the use of this classification eliminates or significantly reduces the imbalance in accounting for assets and liabilities that might otherwise occur; or
- FA is a part of a group of FAs, FLs or a group of FAs and FLs that is managed and measured at fair value in accordance with a documented risk management strategy or investment strategy of the enterprise and information about such a group is presented internally on this basis.
- FA is a part of an instrument that contains one or more embedded derivatives, and IAS 39 permits the designation of the instrument as carried at fair value through profit or loss.

FAs measured at fair value through profit or loss are reported at fair value with revaluation recognized in profit or loss. Dividends and interest earned on such FAs are recognized in profit or loss in the line "Other profit or loss".

4.16.3 Investment securities held to maturity

Non-derivative FAs with fixed or determinable payments and fixed maturity date that the Group intends and can hold to maturity are classified as held to maturity. After recognition, financial investments held to maturity are recorded at amortized cost using the effective interest method less impairment.

4.16.4 Available-for-sale FAs

Available-for-sale FAs are non-derivative FAs, either classified as available-for-sale or not classified in any other category.

Redeemable bonds traded on organized active markets are classified as available-for-sale and are recorded at fair value at each reporting date. The Group also has investments in shares that are not traded on an organized active market, classified as available-for-sale and recognized at cost at each reporting date (as management believes that fair value cannot be measured reliably).

Changes in the carrying value of monetary available-for-sale FAs arising from changes in the exchange rate of foreign currency, interest income calculated using the effective interest method, and dividends on investments in available-for-sale equity securities are recognized in profit or loss. Other changes in the carrying amount of available-for-sale FAs are recognized in other comprehensive income and accumulated in the line "Revaluation reserve for financial investments". When FA is disposed of or impaired, the cumulative changes previously recognized in the provision for financial investments are included in profit or loss in the period of disposal or impairment.

Dividends on available-for-sale equity securities are included in profit or loss when the Group gets the right to receive them.

The fair value of monetary available-for-sale FAs in foreign currency is determined in the same currency and translated into rubles at the exchange rate at the reporting date. Exchange differences recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other exchange differences are recognized in other comprehensive income.

4.16.5 Loans and accounts receivable

Loans and accounts receivable are non-derivative FAs with fixed or determinable payments that are not quoted in an active market. Loans and accounts receivable (including trade and other receivables) are carried at amortized cost using the effective interest method.

Interest income is recognized with the use of effective interest rate, except for short-term receivables on which interest income would be insignificant. Management estimates the amount of provision for receivables based on the period of delay. Accounts receivable overdue for more than one year are depreciated in full; more than 6 months - in the amount of 70%; for more than 3 months - in the amount of 50%; less than 3 months - in the amount of 25%. A provision is not created for receivables that are not overdue.

4.16.6 Impairment of FAs

FAs are assessed for impairment at each reporting date, except for those measured at fair value through profit or loss. FAs are considered to be impaired if objective evidence of decrease in expected future cash flows on them as a result of one or more events that occurred after the assets were recognized is available.

For investments in available-for-sale equity securities a significant or prolonged decline in fair value below the cost of their acquisition is considered objective evidence of impairment.

For all other FAs objective evidence of impairment may be:

- significant financial difficulties of the issuer or counterparty; or
- breach of the contract, for example, default or evasion of payment of interest or principal amount of debt; or
- high probability of bankruptcy or financial reorganization of the borrower; or
- disappearance of an active market for this FA due to financial difficulties.

For trade receivables and other FAs not recognized as impaired individually, an impairment assessment is also made for the portfolio as a whole. Historical data on settlement of receivables, an increase in the number of delays during the average period established by the Group's agreements as well as tangible changes in the economy that may affect the level of settlement of receivables can serve as objective evidence of the decline in the value of the portfolio of receivables.

For FAs carried at amortized cost the impairment loss is calculated as the difference between the carrying value of the asset and the initially used for that FA present value of the estimated future cash flows discounted at the effective interest rate.

For FAs carried at cost the impairment loss is defined as the difference between the carrying value of the asset and the present value of the estimated future cash flows discounted at the current market interest rate for a similar FA. Such impairment losses are not reversible in future periods.

The impairment loss directly reduces the carrying value of all FAs, except for trade receivables, which value is reduce at the expense of the provision. Trade receivables are written off at the expense of the provision when recognized as bad. The recovery of amounts previously written off are credited against the provision. Changes in the provision are recognized in profit or loss.

If available-for-sale FAs are recognized as impaired, income or expense accumulated in other comprehensive income is reclassified to profit or loss for the period.

If in a subsequent period the impairment loss on FA decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized loss is reversed through profit or loss. At the same time, the carrying value of FA at the loss reversal date cannot exceed the carrying value that would be reported if the impairment had not been recognized.

Impairment losses on available-for-sale equity instruments previously recognized in profit or loss are not reversed. Upon recognition of the impairment loss, any increase in the fair value of such assets is recorded in other comprehensive income and accrued in the line "Revaluation reserve for financial investments". Impairment losses on debt instruments available-for-sale are subsequently reversed through profit or loss if the increase in the fair value of financial investments can be related objectively to an event occurring after the impairment was recognized.

4.16.7 Derecognition of FAs

The Group writes off FAs upon termination of contractual rights to cash flows from them or transfer of FAs and corresponding risks and rewards to other enterprise. If the Group does not transfer and retains all main risks and rewards of ownership of the asset and retains control over the asset transferred it continues to recognize its share in this asset and possible obligations related to it. If the Group retains all main risks and rewards of ownership of the FA transferred it continues to recognize 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 recognized in profit or loss.

If FA is derecognized partially (for example, when the Group retains the opportunity to repurchase part of the transferred asset), the Group distributes the carrying amount 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 recognized in other comprehensive income are distributed on the basis of the fair value of the parts to be write-off and to remain.

4.17 Financial liabilities and equity instruments

4.17.1 Classification as liability or equity

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

4.17.2 Equity instruments

An equity instrument is any contract that confirms the right to a share of the enterprise's assets less all its liabilities. Equity instruments issued by the Group are recognized in the amount of receipts from them less direct issuance costs.

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

4.17.3 FLs

FLs are classified as either carried at fair value through profit or loss, or as others.

4.17.3.1 FLs carried at fair value through profit or loss

FLs carried at fair value through profit or loss include FLs held for trading and FLs designated upon initial recognition in accounting records as carried at fair value through profit or loss.

FL is classified as "held for trading", if it:

- is recognized with the main purpose of the repurchase in the near future;
- upon initial recognition is included in the portfolio of financial instruments managed by the Group as a single portfolio with a recent history of short-term purchases and resale; or
- represents derivatives that are not designated as a hedging instrument in effective hedging.

A financial liability, other than FL that is held for trading, may be designated upon recognition as FL that is carried at fair value through profit or loss if:

- the use of this classification eliminates or significantly reduces the accounting imbalance that might otherwise occur;
- FL is part of a group of FAs, FLs or a group of FAs and FLs that is managed and measured at fair value in accordance with a documented risk management strategy or investment strategy of the enterprise, and information about such a group is provided internally on this basis;
- FL is part of an instrument that contains one or more embedded derivatives and IAS 39 permits the designation of the instrument as carried at fair value through profit or loss.

FLs carried at fair value through profit or loss are carried at fair value with revaluation recognized in profit or loss. Interest paid on FLs is recognized in profit or loss in the line "Other profit or loss".

4.17.3.2 Other FLs

Other FLs (including borrowings and trade and other payables) are subsequently recognized at amortized cost using the effective interest method.

The effective interest method is used to calculate the amortized cost of FLs and the distribution of interest expense for the relevant period. The effective interest rate is the rate that discounts the expected future cash flows (including all payments received or made on a debt instrument that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) through an expected period until FL is settled or (if applicable) for a shorter period to the carrying value at the time of its recognition.

4.17.3.3 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts concluded by the Group are initially recognized at fair value, unless management designates them as being carried at fair value through profit or loss, and are subsequently carried at the higher of:

- the value of liabilities determined in accordance with IAS 37;

- the amount initially recognized less (if appropriate) accumulated depreciation recognized in accordance with the recognition policy.

4.17.3.4 Derecognition of FLs

The Group derecognizes FLs only upon they are discharged or cancelled or expire. The difference between the carrying amount of FL written-off and the consideration paid or due to payment is recognized in profit or loss.

5. APPLICATION OF NEW OR REVISED FINANCIAL REPORTING STANDARDS

Application of new IFRS

The following amendments to current IFRS became effective from 1 January 2017:

- the amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosure of a reconciliation of movements in liabilities arising from financing activities.
- the amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealized losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2018. In particular, the Group has not early adopted the standards, interpretations and amendments:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements for recognizing a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognizing and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalization in particular circumstances.

The Group is currently assessing the impact of the amendments on its financial position and results of operations.

Standards that are not yet effective and have not been early adopted by the Group

IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018).

In July 2014 the International Accounting Standards Board (IASB) issued the final version of IFRS 9. It replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together new requirements to classification, measurement, impairment and hedge accounting. In respect to impairment IFRS 9 sets out a new expected credit loss impairment model which replaces the existing incurred loss model applied in IAS 39. The new model is meant to provide full and timely recognition of loss on financial assets. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. On October 2017 the amendments to the new standard were issued that are effective from 1 January 2019. In general, the Group does not expect significant effects of the new requirements on the financial statements.

IFRS 15 Revenue from Contracts with Customers (IFRS 15) (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognized as an asset and amortized over the period when the benefits of the contract are consumed. To assess the impact of IFRS 15 on the financial statements, the Group reviewed the major contracts with customers. Based on the analysis, the Group does not expect the standard to have a significant impact on its financial statements.

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in the statement of financial position. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognize assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application of IFRS 15 Revenue from Contracts with Customers. The Group is currently assessing the impact of the adoption of the standard on the combined financial statements.

6. SIGNIFICANT ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

The process of applying the accounting policies requires management of the Group (see Note 4) to make judgements, estimations and assumptions in order to determine carrying amounts of assets and liabilities when other sources do not make them clear. 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 recognized 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.

(in thousands of Russian rubles)

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

- Provision for impairment of receivables – Note 17;
- Deferred tax assets and liabilities measurement – Note 13;
- Fair value measurement – Note 26;
- Estimation of opportunity to extend existing leases and enter into new leases.

Reclassification

The Group has made the followings changes in the statement of financial position, statement of profit or loss and statement of changes in equity as at 31 December 2016 in order to reconcile them to the data presentation format as at 31 December 2017:

Line of the financial statements	Amount of adjustment	Before adjustment	After adjustment
Charter capital	(200,200)	200,200	-
Retained earnings	(18,732)	110,699	91,967
Net assets owned by participants	218,932	-	218,932
Administrative and selling expenses	(1,456)	(274,388)	(275,844)
Other income (expenses)	1,456	(61,520)	(60,064)

Since the control over the entities under common control Evropeyskaya Elektrotekhnica – North-West LLC and Evropeyskaya Elektrotekhnica LLC was acquired on 20 April 2018, net assets owned by participants as at 31 December 2016 were reclassified from equity to liabilities as net assets owned by participants.

7. CAPITAL AND FINANCIAL RISKS MANAGEMENT

Capital management

The Group manages its capital to ensure that its operations continue in the foreseeable future and simultaneously maximize profits for participants by optimizing the balance of borrowings and equity.

The Group's objectives when managing capital are to guarantee the companies of the Group the ability to continue as a going concern in order to provide income to participants and benefits to other interested parties. As at 31 December 2017, the total amount of the Group's capital was RUB 541,528 thousand (31 December 2016: RUB 214,328 thousand).

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 19). The amount of net debt is calculated as the total debt (short-term and long-term loans and borrowings, long-term promissory notes payable, long-term and short-term liabilities under finance leases), net of cash and cash equivalents. The net debt of the Group as at 31 December 2017 amounted to RUB -120,326 thousand (as at 31 December 2016, RUB 34,833 thousand). Absence of debt burden and availability of liquidity mean minimal risks of non-payment.

The calculation of the amount of net borrowings as at 31 December 2017 and 31 December 2016 is presented in the table below.

	31 December	
	2017	**2016**
Total debt	89,456	200,118
Net of cash and cash equivalents	209,782	234,951
Net debt	**-120,326**	**-34,833**

(in thousands of Russian rubles)

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding provision for impairment of receivables), taking into account the revaluation of property, plant and equipment. Adjusted EBITDA of the Group as at 31 December 2017 was RUB 371,139 thousand (as at 31 December 2016, RUB 79,623 thousand).

Financial risk management

In the course of its operations, the Group is exposed to the following financial risks: market risk (including currency risk, commodity risk), credit risk and liquidity risk. The Group has implemented a risk management system, and a number of procedures have been developed to facilitate their measurement, evaluation and control, as well as the selection of appropriate risk management methods.

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

Currency risk

The Group makes 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		Liabilities	
	As at		As at	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Euro	10,840	58,799	(112)	(22,121)
Pounds		84	-	-
US dollar	18,894	4,077	-	(104)
Total	**29,734**	**62,960**	**(112)**	**(22,225)**

The company identifies and manages currency risks using an integrated approach that takes into account the possibility of using natural (economic) hedging. For the purpose of short-term currency risk management, the Company chooses the currency in which free cash balances between the Russian ruble, the US dollar and other foreign currencies are kept.

Analysis of financial instruments' sensitivity to the risk of changes in foreign exchange rates

Currency risk is assessed monthly using a sensitivity analysis and is maintained within parameters approved in accordance with the Company's policies. The table below shows the change in the Company's profit before taxation with the growth/(decrease) of the US dollar and the euro against the ruble.

	2017	2016
Impact of the change in the US dollar exchange rate by 10%	1,512 / (1,512)	326 / (326)
Impact of the change in the euro exchange rate by 10%	858 / (858)	6,279 / (6,279)

(in thousands of Russian rubles)

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 operating on a prepayment basis. The Group continuously monitors the financial position of counterparties and controls the risk of non-payments. In the event of non-compliance by the Group's counterparties the maximum amount of its credit risk is limited to the amounts of contracts concluded. As at 31 December 2017 management assessed the risk of non-fulfilment of obligations by counterparties as unlikely.

Also, when managing cash flows and credit risks, the Group regularly monitors the creditworthiness of financial and banking institutions with which it performs settlements and where funds are placed on deposits. The Group cooperates with JSB "RosEvroBank", VTB Bank (PJSC), PJSC Sberbank. The maximum credit risk of the Company is represented by the carrying value of each financial asset recognized in the combined statements of financial position.

	31 December 2017	2016
Cash and cash equivalents	209,782	234,951
Debt securities	-	-
Long-term and short-term trade and other receivables	734,818	854,610
Financial guarantees	24 620	-
Total maximum exposure to credit risk	**969,220**	**1,089,561**

Liquidity risk

The Group has a developed liquidity risk management system for managing short, medium and long-term financing. Management continuously monitors the projected and actual cash flows and analyzes the schedules for the repayment of financial assets and liabilities, and also implements annual detailed budgeting procedures. Information on the maturities of the Group's financial liabilities in accordance with the contractual schedules as at 31 December 2017 and 31 December 2016:

31 December 2017	**12 months**	**1-5 years**	**Over 5 years**	**Total**
Finance lease commitments	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 staff expenses accrued	65	-	-	**65**
Taxes payable	44,003	-	-	**44,003**
Total	**385,209**	**47,789**	**192,635**	**625,633**

31 December 2016	**12 months**	**1-5 years**	**Over 5 years**	**Total**
Finance lease commitments	11,947	47,789	166,417	**226,153**
Accounts payable to suppliers and contractors	550,211	-	-	**550,211**
Short-term and long-term loans and borrowings	-	-	-	**-**
Salary and other staff expenses accrued	12	-	-	**12**
Taxes payable	9,338	-	-	**9,338**
Long-term promissory notes	-	200,000	-	**200,000**
Total	**571,508**	**247,789**	**166,417**	**985,714**

8. REVENUE FROM SALES AND COST OF SALES

Activities and assets of the Group are mostly located in Russia

(in thousands of Russian rubles)

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue from sales	2,595,265	3,166,573
Cost of sales	(2,127,358)	(2,744,790)
Gross profit	**467,907**	**421,783**

In 2017 revenue from sales of goods and services to the two largest customers amounted to 23% of the Group's revenue which equals RUB 594,298 thousand (2016: revenue from sales of goods and services to the two largest customers amounted to 28% of the Group's revenue which equals RUB 890,875 thousand). During 2017 current receivables due to the Group from the two largest customers decreased from RUB 176,388 thousand to RUB 59,665 thousand which amounted to 22% of total trade receivables due to the Group as at 1 December 2017 and 11% as at 31 December 2017. During 2016 current receivables due to the Group from the two largest customers increased from RUB 63,178 thousand to RUB 176,388 thousand which amounted to 38% of total trade receivables due to the Group as at 1 December 2016 and 22% as at 31 December 2016.

9. ADMINISTRATIVE AND SELLING EXPENSES

	For the year ended 31 December 2017	For the year ended 31 December 2016
Wages, salaries and social contributions	77,718	55,453
Electrical installation works	38,014	3,253
Transportation services	29,063	54,501
Materials and stationery	18,404	28,147
Information services	18,136	20,877
Business trips	15,891	16,292
Amortization charge	15,047	13,936
Consulting and legal services	13,672	4,610
Operating leases	8,524	9,638
Insurance	6,001	9,077
Banking services	3,200	2,357
Communication costs	3,170	4,062
Repairs and maintenance	1,749	1,023
Marketing services	742	4,654
Other taxes	320	229
Security	275	1,016
Storage	-	30,954
Other expenses	18,479	15,765
Total administrative and selling expenses	**268,405**	**275,844**

10. OTHER INCOME AND EXPENSES

	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue from promissory notes presented	93,939	(111)

(in thousands of Russian rubles)

	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue from sale of shares	30,283	-
Write-off, sale of fixed assets	686	-
Write-off of accounts payable including salaries and other employee benefits payable	510	(43)
Creation of provision for trade receivables	(16,369)	(56,164)
Creation of provision for short-term investments	(195)	(1,738)
Other expenses	(1,499)	(2,008)
Total other operating income/expenses	**107,355**	**(60,064)**

11. FINANCE INCOME

Finance income	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest on bank balance	17,972	25,101
Positive exchange difference	13,310	15,776
Interest on loans issued	1,877	1,035
Interest on bank deposits	440	1,661
Effect of change in estimation of promissory notes maturity dates	-	756
Total finance income	**33,599**	**44,329**

12. FINANCE EXPENSE

Finance expense	For the year ended 31 December 2017	For the year ended 31 December 2016
Discount amortization upon presentation of promissory notes	137,523	2,349
Interest expense on finance leases	11,725	11,803
Interest expense on long-term promissory notes	10,667	24,150
Negative exchange difference	10,175	42,289
Interest expense on long-term loans	373	-
Total finance expense	**170,463**	**80,591**

13. INCOME TAX

13.1 Income tax recognized in profit or loss

	For the year ended 31 December 2017	For the year ended 31 December 2016
Current income tax	(54,995)	(20,686)
Tax penalties	-	-
Deferred tax assets	915	18
Deferred tax liabilities	18,820	12,875
Total	**(35,260)**	**(7,793)**

In 2017 current income tax rate of 20% was used for the companies of the Group.

Income tax expense for the year can correspond to the profit reported in accounting records in the following way:

(in thousands of Russian rubles)

	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit before tax on profit from continuing operations	**169,993**	**49,608**
Income tax at 20% tax rate	(33,999)	(9,921)
Permanent differences: income and expense which do not affect taxable profit	(1,261)	2,128
Unused tax losses, unrecognized in the statements	-	-
Income tax reported in profit or loss	**(35,260)**	**(7,793)**

13.2 Deferred taxes

Temporary differences arising between the data of these combined financial statements and taxation data have led to the following deferred assets and liabilities for income tax:

	Combined statement of financial position as at		Recognized in		
	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 commitments	10,128	10,184	(56)	-	-
Long-term promissory notes	-	(29,638)	29,638	-	-
Accounts payable	(8,613)	(4,247)	(4,366)	-	-
Long-term borrowings and loans	(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)**

	Combined statement of financial position as at		Recognized in	
	31 December 2016	**31 December 2015**	**profit or loss**	**other comprehensive income**
Fixed assets	(31,644)	(29,140)	1,533	(4,037)
Accounts receivable	12,935	2,422	10,513	-
Finance lease commitments	10,184	10,257	(73)	-
Long-term promissory notes	(29,638)	(34,787)	5,149	-
Other payables	(4,247)	-	(4,247)	-
Losses carried forward	18	-	18	-
Deferred taxes (net), including	**(42,392)**	**(51,248)**	**12,893**	**(4,037)**
Deferred tax assets	**18**	**-**	**18**	**-**
Deferred tax liabilities	**(42,410)**	**(51,248)**	**12,875**	**(4,037)**

(in thousands of Russian rubles)

14. FIXED ASSETS

	Office and warehouse premises	Vehicles	Machinery and equipment	Inventory and other	Total
As at					
1 January 2017					
Initial 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 at 1 January 2017	**158,221**	**8,352**	**2,905**	**260**	**169,738**
Additions	-	3,694	-	164	3,858
Depreciation	(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	(49,235)	-	-	-	(49,235)
As at					
31 December 2017					
Initial 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**

(in thousands of Russian rubles)

	Office and warehouse premises	Vehicles	Machinery and equipment	Inventory and other	Total
As at					
1 January 2016					
Initial cost	145,700	23,804	7,199	695	**177,398**
Accumulated depreciation	-	(12,657)	(3,043)	(650)	**(16,350)**
Net book value					
As at 1 January 2016	**145,700**	**11,147**	**4,156**	**45**	**161,048**
Additions	-	1,172	-	261	**1,433**
Depreciation	(7,662)	(4,978)	(1,251)	(45)	**(13,936)**
Disposals at initial or revalued cost	-	-	-	(307)	**(307)**
Disposals of accumulated depreciation of fixed assets	-	1,011	-	306	**1,317**
Revaluation of fixed assets	20,183	-	-	-	**20,183**
As at					
31 December 2016					
Initial 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 at 31 December 2016	**158,221**	**8,352**	**2,905**	**260**	**169,738**

No fixed assets were pledged as at 31 December 2017. According to the Group's management assessment, carrying value of fixed assets does not differ significantly from their fair value.

Office and warehouse premises are carried at market value as at the date of revaluation less accumulated depreciation.

Revaluation of office and warehouse premises at market value was performed at 31 December 2017 and 31 December 2016. If office and warehouse premises were carried at acquisition cost less depreciation, its present value as at 31 December 2017 and 31 December 2016 would have amounted to RUB 37,061 thousand and RUB 39,133 thousand, respectively.

Revaluation reserve as at 31 December 2017 amounted to RUB 69,833 thousand (2016: RUB 109,219 thousand).

(in thousands of Russian rubles)

15. SHORT-TERM AND LONG-TERM FINANCIAL ASSETS

	Interest rate	31 December 2017	31 December 2016
Long-term loans issued			
to individuals	8-9%	1,256	1,769
Total long-term loans issued		**1,256**	**1,769**
Short-term loans issued			
to individuals - related parties	8-9%	6,207	9,046
to individuals	10-14%	2,913	-
to legal entities-related parties	10-14%	2,794	4,168
to individuals	8-9%	640	2,641
to individuals - related parties	10-14%	-	2,618
Total short-term loans issued		**12,554**	**18,473**
Total loans issued		**13,810**	**20,242**

As at 31 December 2017 and 31 December 2016 loans were issued mostly in rubles to employees and related parties, including entities under common control of the Group. Under the terms of the contract long-term loans have maturity from 1.5 to 3 years.

There were no overdue loans issued without a related provision for impairment as at 31 December 2017 and 31 December 2016. The amount of debt for overdue loans reserved in 2017 is RUB 1,933 thousand (2016: RUB 1,738 thousand).

16. INVENTORIES

	31 December 2017	31 December 2016
Goods for sale	99,403	95,672
Finished goods	976	-
Raw materials	11	14
Total inventories	**100,390**	**95,686**

No inventories were pledged as at 31 December 2017 and 31 December 2016.

17. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2017	31 December 2016
Trade receivables	550,357	796,665
Other receivables	87,844	13,345
Provision for doubtful trade receivables	(8,270)	(12,772)
Provision for other doubtful receivables	(7,395)	(839)
Total trade receivables	**622,536**	**796,399**
Advances issued and prepayments	103,693	86,388

(in thousands of Russian rubles)

Provision for doubtful advances issued	(6,416)	(49,320)
Total advances issued and prepayments	**97,277**	**37,068**
Other taxes and fees receivable	1,195	901
Total receivables and prepayments	**721,008**	**834,368**

As at 31 December 2017 and 31 December 2016 receivables were not pledged as security for loans and borrowings.

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

	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Overdue receivables	1,702	12,024	2,949	13,432	**30,107**
Provision for doubtful debt	(425)	(6,012)	(2,212)	(13,432)	**(22,081)**
Overdue receivables net of provision for doubtful debt	**1,277**	**6,012**	**737**	**-**	**8,026**

Accounts receivable by periods of delay as at 31 December 2016 are presented in the table below:

	Up to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Overdue receivables	1,456	400	2,771	60,289	**64,916**
Provision for doubtful debt	(364)	(200)	(2,078)	(60,289)	**(62,931)**
Overdue receivables net of provision for doubtful debt	**1,092**	**200**	**693**	**-**	**1,985**

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
Provision for impairment of receivables and prepayments as at 1 January	**62,931**	**12,109**
Writing off against impairment provision during the year	(57,219)	(5,342)
Creation of impairment provision for receivables during the year	16,369	56,164
Provision for impairment of receivables and prepayments as at 31 December	**22,081**	**62,931**

As at 31 December 2017 not overdue receivables and prepayments amounted to RUB 712,982 thousand (2016: RUB 832,383 thousand)

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	31 December 2017	31 December 2016
Cash on settlement accounts in all currencies, including:	107,782	210,344

	Russian rubles	*78,904*	*192,867*
	US dollars	*18,558*	*1,789*
	euro	*10,320*	*15,688*
Cash equivalents (short-term deposits)		102,000	24,607
Total cash and cash equivalents		**209,782**	**234,951**

Deposits are interest-bearing. Cash and short-term deposits are placed in leading Russian banks from the world's top 500 largest banks: PJSC Sberbank, VTB Bank (PJSC), JSB "RosEvroBank" and JSCB PERESVET.

In October 2016 the Bank of Russia appointed a provisional administration in JSCB PERESVET and imposed a moratorium on satisfying claims of the Bank's creditors which was extended for another 3 months and lifted afterwards. Cash placed on accounts in JSCB PERESVET was paid to the Group in full with the interest payable.

19. CAPITAL

Share capital

	31 December 2017	31 December 2016
Authorized ordinary shares		
Number, in millions	610	610
Total amount, RUB thousand	610,000	610,000
Issued and fully paid shares		
Number, in millions	610	610
Total amount, RUB thousand	610,000	610,000
Nominal value of an ordinary share, RUB	1	1

As at 31 December 2017 and 31 December 2016 authorized, issued and fully paid share capital consisted of 610 million shares with a nominal value of 1 Russian ruble each. All shares have equal value and carry voting rights.

Business combination reserve

On 15 September 2016 interests in charter capital of Evropeyskaya Elektrotekhnica EC LLC with nominal value of RUB 3,142 thousand were transferred to PJSC Evropeyskaya Elektrotekhnica as payment for additional issue of shares of PJSC Evropeyskaya Elektrotekhnica. Market value of interests in charter capital of Evropeyskaya Elektrotekhnica EC LLC was estimated at RUB 600,000 thousand by an independent expert. As a result of the transaction PJSC Evropeyskaya Elektrotekhnica has become the only shareholder of Evropeyskaya Elektrotekhnica EC LLC.

Excess of market valuation of interests in charter capital of Evropeyskaya Elektrotekhnica EC LLC over their nominal value is recorded in equity of the group as business combination reserve.

On 17 April 2017 participants of Evropeyskaya Elektrotekhnica EC LLC made additional contribution to charter capital of Evropeyskaya Elektrotekhnica EC LLC in the form of 100,000 thousand ordinary shares of PJSC Evropeyskaya Elektrotekhnica with the estimated value of RUB 738,000 thousand. As a result of acquisition of Evropeyskaya Elektrotekhnica LLC by Evropeyskaya Elektrotekhnica – North-West LLC business combination reserve of RUB 738,298 thousand is reported in equity.

(in thousands of Russian rubles)

Dividends and similar payments to participants

The Group has been paying dividends from 2010. In accordance with the Russian legislation distribution of dividends is performed based on net profit for the year calculated under Russian accounting rules.

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

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

In 2017 payments to participants under finance leases (see Note 22) were accrued in the amount of RUB 21,664 thousand (2016: dividends RUB 29,910 thousand, payments to participants under finance leases (see Note 22) RUB 21,670 thousand).

Additional capital

Effect of discounting loans provided to Evropeyskaya Elektrotekhnica EC LLC by related parties Kalenkov I.A. and Dubenok S.N. on 14 December 2017 in the amount of RUB 200,000 thousand until 31 December 2042, including annual interest rate of 4%, is recorded in additional capital in the amount of RUB 129,468 thousand.

Acquisition of subsidiary with non-controlling interest

As a result of acquisition of Evropeyskaya Elektrotekhnica LLC by Evropeyskaya Elektrotekhnica – North-West LLC expense on acquisition of a subsidiary of RUB 22,980 thousand and business combination reserve of RUB 738,298 thousand are reported in equity.

20. LONG-TERM AND SHORT-TERM BORROWINGS AND LOANS

	31 December 2017	31 December 2016
Long-term borrowings and loans		
to individuals – related parties	38,165	-
Total long-term borrowings and loans	**38,165**	-
Short-term borrowings and loans		
to individuals – related parties	373	-
Total short-term borrowings and loans	**373**	-
Total borrowings and loans	**38,538**	-

As at 31 December 2017 borrowings from related parties amounted to RUB 200,000 thousand for the period of 25 years with the interest rate of 4%. Present value of borrowings amounted to RUB 38,165 as at 31 December 2017.

(in thousands of Russian rubles)

21. ACCOUNTS PAYABLE AND ESTIMATED LIABILITIES

	31 December 2017	31 December 2016
Trade payables	327,756	440,734
Advances received	64,381	104,377
Taxes and fees payable, net of income tax	18,418	8,368
Income tax payable	25,585	970
Estimated liabilities	4,663	15,699
Wages and salaries payable	65	12
Other payables	1,065	109,477
Total accounts payable and estimated liabilities	**441,933**	**679,637**

Short-term payables in 2017 were repaid within 51 days on average (2016: 44 days). Trade and other payables are non-interest bearing.

As at 31 December 2017 payables included provision for annual leave of RUB 4,663 thousand (2016: RUB 3,198 thousand).

22. FINANCE LEASES PAYABLE

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

As at 31 December 2017 finance leases were reported as follows:

	31 December 2017	31 December 2016
Long-term finance leases payable	50,640	50,918
Short-term finance leases payable	278	221
Total finance leases payable	**50,918**	**51,139**

	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance expense (Note 12)	(11,725)	(11,803)
Administrative expenses (reversal)	11,947	11,947
Impact on net profit for the year	**222**	**144**

In 2017 payments to participants in the amount of RUB 21,664 thousand (2016: RUB 21,670 thousand) were recognized in equity.

All finance lease payables are denominated in currency of the Russian Federation – the Russian ruble.

(in thousands of Russian rubles)

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Finance lease commitments				
Short-term	11,947	11,947	278	221
From 1 to 5 years	47,789	47,789	976	1,443
More than 5 years	154,470	166,417	49,664	49,475
Total	214,206	226,153	50,918	51,139
Net of future finance charges	(163,288)	(175,014)	-	-
Present value of minimum lease payments	**50,918**	**51,139**	**50,918**	**51,139**

23. NET ASSETS OWNED BY PARTICIPANTS

Net assets owned by participants are net assets of the consolidated group consisting of Evropeyskaya Elektrotekhnica – North-West LLC and Evropeyskaya Elektrotekhnica LLC (see Note 4).

As at 31 December 2017 net assets of the consolidated group consisting of Evropeyskaya Elektrotekhnica – North-West LLC and Evropeyskaya Elektrotekhnica LLC amounted to RUB 35,874 thousand (2016: RUB 218,932 thousand).

24. OPERATING LEASES

Operating leases have different terms and mostly represent short-term leases of premises for regional offices and logistics centers (with the automatic renewal clause) as well as a long-term lease of a land plot with warehouse premises in the Moscow region. Agreements include possible annual revision of lease payments and agreement terms clauses.

Total operating lease expenses for the years ended 31 December 2017 and 31 December 2016 amounted to RUB 8,524 thousand and RUB 6,897 thousand, respectively. These expenses were recognized as administrative and selling expenses in the combined statement of profit or loss and other comprehensive income.

The future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	**31 December 2016**
Short-term	2,499	2,499
From 1 to 5 years	9,995	9,995
More than 5 years	43,729	46,228
Total	**56,223**	**58,722**

(in thousands of Russian rubles)

25. CAPITAL COMMITMENTS

As at 31 December 2017 and at 31 December 2016 the Group had no capital commitments.

26. 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 according to market quotations. The fair value measurement is aimed at determining the price that would be received to sell an asset or paid to transfer 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 analysis of discounted cash flows using prices of actual market transactions. 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 2017.

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

	As at 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 borrowings and loans	-	-	373	**373**
Total financial liabilities	-	-	**51,291**	**51,291**

	As at 31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets for which fair values are disclosed:				
Long-term loans issued	-	-	1,769	**1,769**
Short-term loans issued	-	-	18,473	**18,473**
Cash and cash equivalents	234,951	-	-	**234,951**
Total financial assets	**234,951**	-	**20,242**	**255,193**
Liabilities for which fair values are disclosed:				
Long-term finance leases payable	-	-	50,918	**50,918**
Short-term finance leases payable	-	-	221	**221**
Other non-current liabilities	-	-	148,979	**148,979**
Total financial liabilities	-	-	**200,118**	**200,118**

27. RELATED PARTY TRANSACTIONS

In these combined financial statements, parties are considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In the reported period with participants and companies under control of participants, key management personnel. 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, in every period additional disclosure of certain significant transactions (balances and turnovers) with certain related parties is possible. Balances with companies of the Group are eliminated on consolidation and information about them is not disclosed in this note.

Related parties of the Group are:

	Location	Activities
Individuals		
Kalenkov I.A.	Russia	Chief Executive Officer, shareholder of the Company
Dubenok S.N.	Russia	Shareholder of the Company
Baskova M.V.	Russia	Member of the Board of Directors
Manaenkova O.V.	Russia	Member of the Board of Directors
Grubenko V.Y.	Russia	Member of the Board of Directors
Lautier J.	France	Member of the Board of Directors

	Location	Activities
Legal entities		
RNG-Engineering LLC	Russia	Other related parties
Evropeyskaya Elektrotekhnica – Novosibirsk LLC	Russia	Other related parties
Evropeyskaya Elektrotekhnica LLC	Russia	Other related parties
Evropeyskaya Elektrotekhnica – Povolzhye LLC	Russia	Other related parties
Evropeyskaya Elektrotekhnica – Samara LLC	Russia	Other related parties
Evropeyskaya Elektrotekhnica – North-West LLC	Russia	Other related parties
Evropeyskaya Elektrotekhnica – Ufa LLC	Russia	Other related parties
Engineering Center Tehstroy LLC	Russia	Other related parties
Eltek LLC	Russia	Other related parties
LLC Centerstroy	Russia	Other related parties
Evropeyskaya Elektrotekhnica – Krasnodar LLC	Russia	Other related parties
individual entrepreneur Bychkova O.E.	Russia	Other related parties

	Location	Activities
individual entrepreneur Dubenok T.E.	Russia	Other related parties

(in thousands of Russian rubles)

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

27.1 Remuneration for key management personnel

Remuneration for key management personnel for 2017 amounted to RUB 3,911 thousand (2016: RUB 2,519 thousand). This remuneration includes exclusively short-term compensation. The Group did not make any other payments to key management personnel. Balances at the end of every reporting period were insignificant.

27.2 Related party transactions

During 2017 and 2016 the Group's enterprises made the following transactions with other related parties:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Other income	143,245	121
Other expenses	-	(44,872)
Total operating activities	**143,245**	**(44,751)**
Finance income	(11,947)	(11,947)
Total financing activities	**(11,947)**	**(11,947)**
Interest on loans issued	-	232
Short-term loans issued	(2,431)	(15,600)
Short-term loans issued	12,810	1,500
Total investing activities	**10,379**	**(13,868)**

During 2017 and 2016 the Group's enterprises made the following transactions with shareholders:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Other income	59,107	-
Other expenses	(1,873)	-
Total operating activities	**5,234**	**-**
Dividends and similar payments to participants	-	(29,885)
Dividends and similar payments to shareholders	(21,670)	(21,670)
Total financing activities	**(21,670)**	**(51,555)**
Finance income	3,051	-
Short-term loans issues	(178,000)	-
Repayment of short-term loans issued	178,000	-
Total investing activities	**3,051**	**-**

(in thousands of Russian rubles)

In April 2016 charter capital of Evropeyskaya Elektrotekhnica EC LLC was increased by the decision of the participants of the company by RUB 200,000 thousand. Additional contributions of participants were paid with securities – simple promissory notes of EKOS-VPK LLC with nominal value of RUB 200,000 thousand drawn up on 15 October 2015 and due on demand.

On 15 September 2016 interests in charter capital of Evropeyskaya Elektrotekhnica EC LLC with nominal value of RUB 3,142 thousand were transferred by Dubenok S.N. and Kalenkov I.A. as a payment for the additional issue of shares of PJSC Evropeyskaya Elektrotekhnica. Market value of interests in charter capital of Evropeyskaya Elektrotekhnica EC LLC was estimated at RUB 600,000 thousand by an independent expert.

On 17 April 2017 charter capital of Evropeyskaya Elektrotekhnica LLC was increased by RUB 738,000 thousand. Additional contributions of the participants Dubenok S.N. and Kalenkov I.A. were paid with ordinary shares of PJSC Evropeyskaya Elektrotekhnica with the estimated value of RUB 7.38 per share.

On 9 November 2017 99% of charter capital of Evropeyskaya Elektrotekhnica LLC were sold to Evropeyskaya Elektrotekhnica – North-West LLC. Part of the debt under this assignment agreement in the amount of RUB 66,000 was transferred to Evropeyskaya Elektrotekhnica LLC.

On 14 December 2017 Dubenok S.N. and Kalenkov I.A. transferred promissory notes of Evropeyskaya Elektrotekhnica EC LLC to Evropeyskaya Elektrotekhnica EC LLC under an agreement of purchase and sale of promissory notes for the total amount of RUB 200,000 thousand (nominal value of RUB 250,000 thousand) with payment deferred until 31 December 2042 and annual interest rate of 4%.

On 20 April 2018 PJSC Evropeyskaya Elektrotekhnica purchased 50% interest in charter capital of Evropeyskaya Elektrotekhnica – North-West LLC from Dubenok S.N. with the nominal value of RUB 50,000 thousand at the estimated value of RUB 97,000 thousand and 50% interest in charter capital of Evropeyskaya Elektrotekhnica – North-West LLC from Kalenkov I.A. with the nominal value of RUB 50,000 thousand at the estimated value of RUB 97,000 thousand under an agreement of purchase and sale.

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

	31 December 2017	31 December 2016
Short-term loans issued	34,247	1,474
Accounts receivable and prepayments	25,364	5,019
Accounts payable and estimated liabilities	-	(305)
	59,611	**6,188**

Balances with shareholders at the end of every reporting period are presented in the table below.

	31 December 2017	31 December 2016
Long-term borrowings and loans	38,165	-
Short-term loans issued	6,207	26
Short-term borrowings and loans	373	-
	44,745	**26**

(in thousands of Russian rubles)

27.3 Loans issued to shareholders

In 2017 transactions concerning loans issued to shareholders were as follows:

Dubenok S.N. – a loan issued at 8% and due to in 12 months:

Balance at the beginning of the year	Granted	Collected	Balance at the end of the reporting period	Information on debt collection
6,500	62,000	(53,000)	15,500	RUB 20,000 thousand in cash RUB 33,000 thousand under assignment agreement with Evropeyskaya Elektrotekhnica – North-West LLC

Kalenkov I.A. – a loan issued at 8% and due to in 12 months:

Balance at the beginning of the year	Granted	Collected	Balance at the end of the reporting period	Information on debt collection
2,500	66,000	(53,000)	15,500	RUB 20,000 thousand in cash RUB 33,000 thousand under assignment agreement with Evropeyskaya Elektrotekhnica – North-West LLC

Dubenok S.N. – a loan issued at 8% and due to in 12 months:

Balance at the beginning of the year	Granted	Collected	Balance at the end of the reporting period	Information on debt collection
-	25,000	(25,000)	-	promissory note of Evropeyskaya Elektrotekhnica EC LLC

Kalenkov I.A. – a loan issued at 8% and due to in 12 months:

Balance at the beginning of the year	Granted	Collected	Balance at the end of the reporting period	Information on debt collection
-	25,000	(25,000)	-	promissory note of Evropeyskaya Elektrotekhnica EC LLC

In 2016 transactions concerning loans issued to shareholders were as follows:

Dubenok S.N. – a loan issued at 8% and due to in 12 months:

(in thousands of Russian rubles)

Balance at the beginning of the year	Granted	Collected	Balance at the end of the reporting period	Information on debt collection
-	6,500	-	6,500	-

Kalenkov I.A. – a loan issued at 8% and due to in 12 months:

Balance at the beginning of the year	Granted	Collected	Balance at the end of the reporting period	Information on debt collection
-	2,500	-	2,500	-

28. CONTINGENCIES AND COMMITMENTS

28.1 Legal proceedings

The Group is involved as a plaintiff in a number of court proceedings which arose in the course of business. Management is of the opinion 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.

28.2 Taxation

Russian commercial, including tax, legislation under which the Group operates is subject to varying interpretations and frequent change. There is also risk of arbitrary decisions on business operations taken by tax authorities. If any particular actions based on management's judgements are challenged by the tax authorities, additional taxes, penalties and interest may be assessed.

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 level of controlled transactions' prices (profitability).

The Group believes that risks arising from intra-group transactions pricing in 2017 and earlier will not have a material effect on its financial position and the results of operations.

29. SUBSEQUENT EVENTS

On 20 April 2018 PJSC Evropeyskaya Elektrotekhnica purchased 50% interest in charter capital of Evropeyskaya Elektrotekhnica – North-West LLC from Dubenok S.N. with the nominal value of RUB 50,000 thousand at the estimated value of RUB 97,000 thousand and 50% interest in charter capital of

(in thousands of Russian rubles)

Evropeyskaya Elektrotekhnica – North-West LLC from Kalenkov I.A. with the nominal value of RUB 50,000 thousand at the estimated value of RUB 97,000 thousand under an agreement of purchase and sale. As a result of the transaction, PJSC Evropeyskaya Elektrotekhnica acquired control over Evropeyskaya Elektrotekhnica – North-West LLC and Evropeyskaya Elektrotekhnica LLC and the Group comprises the following subsidiaries:

Entity of the Group	**Percent of charter capital**			**Location**	**Principal activities**
	PJSC Evropeyskaya Elektrotekhnica	**Kalenkov I.A.**	**Dubenok S.N.**		
Evropeyskaya Elektrotekhnica EC LLC	100%	-	-	17 Marshala Timoshenko Ul., Room 9, Building 2, Moscow, 121359	wholesale trade of non-food products (OKVED 46.4)
Evropeyskaya Elektrotekhnica – North-West LLC	100%	-	-	47A Stachek Pr., Saint Petersburg, 198097	wholesale trade of other building materials and products (OKVED 46.73.6)

Entity of the Group	**Percent of charter capital**			**Location**	**Principal activities**
	Evropeyskaya Elektrotekhnica – North-West LLC	**Kalenkov I.A.**	**Dubenok S.N.**		
Evropeyskaya Elektrotekhnica LLC	99	0.5	0.5	22 Kashirskoye Sh., Room 4, Building 3, Moscow 115201	wholesale trade of other household goods (OKVED 46.49)

On 22 February 2018 PJSC Evropeyskaya Elektrotekhnica entered into guarantee agreements with PJSC Sberbank of Russia on fulfilment of all obligations under bank guarantee agreements with the limit of up to RUB 750,000 thousand. Agreements are due on 28 November 2023.

On 20 February 2018 the Extraordinary Meeting of Shareholders of PJSC Evropeyskaya Elektrotekhnica elected in the new Board of Directors of PJSC Evropeyskaya Elektrotekhnica Joel Lautier, a French citizen, who owns 1,905,840 ordinary shares of PJSC Evropeyskaya Elektrotekhnica which amount to 0.3124% of share capital.

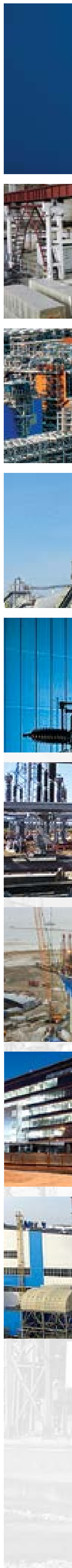
Kalenkov I.A.

Chief Executive Officer
PJSC Evropeyskaya Elektrotekhnica
3 May 2018

Baskova M.V.

Chief Accountant
PJSC Evropeyskaya Elektrotekhnica
3 May 2018

Evropeyskaya
Elektrotekhnica



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