MISSION
To provide reliable, effective and comprehensive solutions in order to satisfy the demands of the global power system by constantly refining our technologies and business processes.

VISION
Claim first place on the power-machine-building market of Russia and the CIS and become a key player on the world market.

VALUES

Client focus
The company owes its very existence to its clients.

Efficiency and speed
Efficiency and speed — the ability and desire to «quickly and properly make the right things» from the first try.

Innovation
We strive to achieve the best results, integrate innovations and constant improvements on the basis of the best practices, exceeding them and creating new ones in the process.

Safety
We proceed from the conviction that no objective can ever justify the violation of applicable labour-safety requirements or carelessness with respect to human life and health.

Teamwork
We are a team of like-minded professionals who share the same values.

Personal respect
Creating an attractive workplace and atmosphere depends on the joint efforts not only of the organization as a whole, but also on those of our individual managers and employees.
CONTENTS

About the Company
General information ......................................................................................................................... 9
Main products and services ............................................................................................................. 10
Representative offices and branches of the Company ................................................................. 12

The Company’s position in the industry
The major trends of the economic sector of the Company main business activity and the major factors affecting the industry conditions ................................................................. 15
The main acting and expected competitors of the Company on major activities ....................... 17
Structure of world installed capacity ............................................................................................. 18
General assessment of the Company’s industry performance ....................................................... 18

Priorities of the Company’s activities
Scientific and technical policy ....................................................................................................... 21
Basic guidelines of the Business Management System and their brief description ..................... 23

Report of the Board of Directors on the results of the Company’s development in priority areas of activity
Production activity .......................................................................................................................... 27
Investment activities and technical re-equipment ......................................................................... 29
Intellectual property ..................................................................................................................... 30
Financial results ........................................................................................................................... 31
Company’s Bonds ......................................................................................................................... 32
Credit Ratings ............................................................................................................................... 35

Company Development Strategy
Description of the Company’s competitive advantages ................................................................. 37
Company Development Strategy .................................................................................................. 37

Social responsibility
Human resources policy ................................................................................................................. 41
Corporate Social Responsibility ...................................................................................................... 42
Occupational health and industrial safety ....................................................................................... 44
Environmental protection ............................................................................................................ 46

Corporate Governance
Principles of corporate governance and their implementation in the Company .......................... 49
The Board of Directors ................................................................................................................ 50
Corporate Secretary ..................................................................................................................... 56
General Director .......................................................................................................................... 57
Authorized capital ......................................................................................................................... 58
Report on payment of declared (accrued) dividends on the Company’s shares .......................... 58
The Company’s policy in the field of remuneration and (or) compensation of expenses ............. 58
Information on the amount of remuneration and compensation of expenses of the Company’s management bodies ............................................................................................................. 59
The Company’s Audit Commission .............................................................................................. 59
Audit and Risk Committee of the Board of Directors ................................................................. 61
Auditor ......................................................................................................................................... 62
Registrar ...................................................................................................................................... 62

Appendix
Risk factors .................................................................................................................................... 65
Information (report) on the Company’s compliance with the principles and recommendations of the Corporate Governance Code ................................................................................. 69
Use of energy resources ................................................................................................................. 96
The list of major transactions and transactions which are subject to the the Company’s Charter approval of major transactions in 2017 ................................................................. 97
List of related-party transactions in 2017 ..................................................................................... 97
Glossary ....................................................................................................................................... 102

Contact Us .................................................................................................................................. 106
ADDRESS OF THE CHAIRMAN
OF THE BOARD OF DIRECTORS

DEAR SHAREHOLDERS, CUSTOMERS
AND PARTNERS OF PJSC “POWER MACHINES”!

The previous year has brought significant changes for the Company and the country. Now, just achieving a goal is not sufficient, it is also of importance to do it fast, responding rapidly to new challenges, which requires involved personnel, effective application of business management tools, a high level of professional competency and technology. So it is the main goal, as well as a major challenge nowadays.

Under existing contracts, a lot of work was done to equip, upgrade and maintain the generating equipment of both existing power plants and plants under construction in Russia and abroad.

Given the growing competition in the world market, as well as the complexity of international relations, efforts have concentrated on reducing costs and improving the quality of projects via including more effective business management tools. Their application in engineering was a significant innovation.

Our activities were focused on strengthening the production facilities, introducing new technology, widening research and development works and making innovative products with high added value. The project of the first domestic low-speed turbine K-1200 remains our highest priority. The production facilities were significantly modernized for manufacturing the turbine units.

In 2017, a customer satisfaction improving program continued to be implemented, covering all areas of the Company’s activities. The current and potential customers are regularly informed about the reliable and cost-effective solutions offered by Power Machines. The clients feedback is collected regularly in order to address their complaints without delay.

Regardless the complexity existing in the international and domestic markets, Power Machines are strongly committed to social obligations, being among the prospective employers of Russia. The Company has a
partnership agreement with trade unions acting at the enterprises which are incorporated in the company. In 2017, the corporate social policy was continuously implemented in compliance with the collective bargaining, aimed at creating decent, competitive, comfortable working conditions, as well as providing opportunities for personal, professional and career growth.

Our goal is still to fulfill our obligations, meeting deadlines and ensuring high quality. In 2018, we should reach a new level, first of all, making up for the shortcomings and lagging behind of the previous period. Let me thank the shareholders, partners, employees of Power Machines for their work in 2017. The Company has great potential and vast experience. I am sure that all this, strengthened by specific effective efforts of everyone and critical unbiased assessment of the activities, will ensure a leading position of the Company in the industry, both in terms of quality and production cost and, above all, our customers’ satisfaction.

Alexey Mordashov,
Chairman of the Board of Directors
PJSC “Power machines”
Many sectors of the economy, including power plant engineering, have difficulties in the reporting period. In recent years, we have observed the traditional Russian energy market declined, as new facilities had been commissioned and the competition had increased. In the meantime, the world market is growing. The number of contracts and demand for power engineering products are increasing, especially, in developing countries, mainly in Asia and Latin America.

As a result, as well as developing maintenance and upgrading the delivered equipment, in 2017, Power Machines managed to provide a balanced production load of its facilities. The Company’s portfolio includes the manufacturing orders for a new power equipment and modernization of existing plants in Russia and CIS countries, Asia, Latin America, the Middle East.

Today, the Company is facing some serious challenges, including increased competition in the domestic market, a complex economic and political situation in the world. In these conditions, the only possible solution is to stay as a customer oriented company, that is, to enhance the customers’ satisfaction at low production costs and in the cost-effective way.

Our long-term goals will include strong commitment to our customers, with timely and high-quality performance of contracts, making contracts more profitable and reducing the cost, and developing products and innovative technology as well.

In 2017, the Company launched the “Development of Engineering” project involving all design and engineering departments. The project aimed at developing staff skills, software and hardware systems, improving products, as well as planning and processing the design work. The project will result in the design works achieving a whole new level, developing the internal capabilities of the design departments.

In the reporting year, the Company proceeded with the modernization of the enterprises. The machines renewal makes possible to reduce labor intensity, performing production operations faster and ensuring better quality.

In addition, Power Machines have commissioned a number of unique high-tech equipment on the project of producing an innovative product of the first Russian low-speed 1255 MW turbine for a nuclear power plant. The Company has invested in the production of low-speed units, significantly contributing to the promising direction of international and domestic power engineering.

In 2018, further improving of operating efficiency will be one of the key priorities. The business management system of Power Machines is largely responsible for the task. Our employees are now being involved in
transforming business processes. All personnel, starting from a worker to a line manager and the head, is being engaged in the ongoing improvement process. The employees are giving suggestions how to improve, and the Company is helping in their implementation.

Given the strategic plans made by the Government of the Russian Federation for modernization of the electric power industry, Power Machines have developed a maintenance strategy, including modernization packages, spare parts and services. By now, the Company has been implementing more than 100 research and development projects, more than 30% of R&D aimed at improving the reliability of equipment.

The commissioning of a new production facility, developing the turbine and boiler competency, partnerships with global producers, aimed at localizing a new unique technology in Russia. Today, the commissioning let us ensure import substitution in almost any sector of the power engineering industry.

For example, the project of Power Machines and Toshiba Corporation, aimed at localizing the production of power transformers in Russia, is recognized by the Russian Union of Industrialists and Entrepreneurs as the best project of import substitution. The project is unique, as 100% of the technology is being localized.

In April 2017, Linde Power machines LLC was established as a part of the agreement of intent signed by Gazprom, Linde and Power Machines to produce spiral wound heat exchangers for LNG equipment in Russia.

I am sure that Power Machines are prepared to meet the today’s challenges. All necessary actions are being taken to ensure the Company progress, which includes reducing costs, optimizing the number of personnel, a repair campaign, and the investment program as well. Power Machines have all the background and opportunity to remain a leader of the Russian market and a key player in the international arena.

I want to express my gratitude to all the partners and customers of Power Machines for fruitful work. I also want to thank the Company’s employees for their expertise and focus on tackling the most complex tasks.

Sincerely yours,
Iurii Petrenia,
General Director
PJSC “Power machines”
PJSC “Power machines” is a global power engineering company, one of the world’s top five industry leaders in installed equipment. PJSC “Power machines” have vast experience and expertise in the design, manufacture and complete supply of equipment for nuclear, thermal and hydroelectric power stations, electric grid, shipbuilding and transport systems.

The integrated turnkey project implementation in the electric power industry is a core competence and competitive advantage of the Company, which accounts for about 70% of the power equipment market in Russia and the CIS.

PJSC “Power machines”:
• more than 300000 MW total installed capacity in 57 countries;
• holds the 4th place in the world in installed equipment;
• the largest engineering and design center in power engineering in Russia;
• a full range of basic power equipment complying with international standards;
• a continuous business management process improvement system.

Now the Company is incorporating:
• the largest production assets along with international references and unique experience in the development, production, installation and servicing of power and electrical equipment;
• joint ventures created in partnership with international corporations Siemens and Toshiba;
• top-rank design departments and engineering centers.

Production units:
• Leningradsky Metallichesky Zavod1 (founded in 1857) — production of turbines and auxiliary equipment for hydraulic, thermal and NPPs;
• Electrosila Plant (founded in 1898) — production of generators of all types for hydraulic, thermal and NPPs, as well as traction motors and large electric machines.

Subsidiaries and affiliates (engineering and production):
• PJSC “Krasny Kotelshchik” (founded in 1896) is the largest Russian producer of large, medium and small-capacity boilers, waste heat boilers, high and low pressure heaters, consolidating the experience of all domestic boiler production;
• Open Joint Stock Company “Kaluga turbine works” (founded in 1946) is one of the leading manufacturers of equipment for the Navy, small-scale and industrial power generation;
• Buro Baković Termoenergetska postrojenja d.o.o. (Croatia) (founded in 1929) is a European company producing boiler and heat-exchange equipment. The production facilities allow to produce up to 15 thousand tons of equipment per year in accordance with European and American standards;
• POWER MACHINES FEZER INDUSTRIA MECANICA S/A (Brazil) (founded in 1948) — assembling, manufacturing and marketing of hydro turbine equipment, project management and maintenance of equipment for HPPs;
• LLC “Power machines – Rheostat Plant” (founded in 1960) is a manufacturer of electrical products and traction motors, as well as large electric machines for the mining and oil-and-gas industry. The manufacturer of a complete set of equipment for energy-saving electric trains;
• Polzunov Central Boiler & Turbine Institute (NPO CKTI) (founded in 1927) — research, development of new equipment, modernization of existing equipment of TPPs, NPPs, HPPs, industrial and municipal energy facilities, development of standards, regulations and specifications, certification tests, work on industrial safety and resource, manufacturing of special equipment.

Joint ventures:
• PMTT, LLC2 (founded in 2011) is a joint venture with Toshiba Corporation, producing power transformers

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1 In addition to the main production site, LMZ includes three separate production units: KTL, ZP and TP/CTT.
with a voltage class of 110 — 750 kV of a capacity of 25 — 630 MVA;

- OOO Siemens Gas Turbine Technologies (founded in 2011) is a joint venture with Siemens, producing and servicing gas turbines;
- Linde Power machines LLC (founded in 2017) is a joint venture with Linde AG, producing spiral wound heat exchangers for the gas industry.

**MAIN PRODUCTS AND SERVICES**

**Equipment for nuclear power industry:**
- High-speed steam turbines of a capacity ranging from 200 to 1200 MW;
- Low-speed steam turbines of a capacity up to 1800 MW;
- Turbogenerators of a capacity ranging from 100 to 1200 MW;
- Heat exchange and auxiliary equipment: condensers, heaters, oil coolers, ejectors, valves, etc.;
- Electrical automation systems;
- Drive steam turbines of feed pumps;
- Excitation systems and starting devices.

**Equipment for heat-and-power engineering:**
- Steam turbines of various types up to 1200 MW;
- Turbogenerators of various types of a capacity from 6 to 1200 MW;
- Power boilers for power units at subcritical steam parameters up to 660 MW and steam production from 160 to 2000 tons of steam per hour;
- Power boilers for power units at supercritical steam parameters from 300 to 1200 MW and steam production from 50 to 3950 tons of steam per hour;
- Waste heat boilers produced under the license of Nooter/Eriksen;
- Components of boiler plants, including: burners, atomizers, regenerative and tubular air heaters, energy heaters;
- Heat exchanging equipment for various purposes, including high-pressure heaters and low-pressure heaters, evaporators, coolers;
- Electrical engineering automation systems;
- Optional equipment: condensers, oil coolers, GSC, check valves on steam extraction, filters, etc.;
- Excitation systems and starting devices;
- Common auxiliaries: deaerators, station pipelines, chemical water treatment equipment, separators, expanders.

**Equipment for hydropower engineering:**
- Hydraulic turbines of various types with the capacity up to 1000 MW, including pump-turbines of a capacity up to 300 MW;
- Hydrogenerators (vertical, capsule) ranging from 4 to 720 MW;
- Control butterfly valves with a diameter of 1-7 m with a head ranging from 45 to 230 m;
- Ball valves with a diameter of 1-3.5 m with a head ranging from 170 to 800 m;
- Electrohydraulic regulators and oil pressure installations for a pressure more than 6.3;
- Hydrogenerators for small hydropower plants of a capacity more than 4 MW;
- Electrical engineering automation systems: ACS HA, APCS, MDS;
- Excitation systems.

**Equipment for industry and transport:**
- Synchronous AC generators for stationary and mobile diesel-electric stations;

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2 PMTT, LLC is a 100% subsidiary of PM&T Holding B.V. — joint venture of PJSC “Power machines” and Toshiba Corporation. PJSC “Power machines” owns 50% + 1 share in PM&T Holding B.V.

3 OOO Siemens Gas Turbine Technologies is a 100% subsidiary of Siemens Gas Turbine Technologies Holding BV (SGTTH B.V.), a joint venture of PJSC “Power machines” and Siemens. The indirect interest of PJSC “Power machines” in SGTTH B.V. is 35%.
• Synchronous generators for a wind power plant;
• Traction generators such as STG;
• Asynchronous and synchronous AC electric motors;
• DC electric motors;
• DC and AC traction motors;
• Rotary converters;
• High-voltage electric drive and complete devices of alternating current: starting devices, exciters, complete electric drive of dump trucks «BELAZ» and excavators;
• High-voltage electric drive and complete devices of direct current: complete thyristor devices, electrical equipment for excavators, drilling rigs and mine hoisting mechanisms, exciters of synchronous electric motors;
• Traction electric drives of alternating and direct current for underground railway carriages, trolley buses, electric trains;
• Synchronous AC generators for marine power plants;
• Block turbine units for marine vessels as ship electric power plants;
• Equipment for the oil and chemical industry, connecting parts of main gas and oil pipelines;
• Metal structures for various purposes: frames, supporting structures, gas and airlines, bunkers.

**Equipment for a power grid system:**

• Power transformers and autotransformers 110-750 kV of a capacity more than 25 MVA, including the three-phase design;
• Autotransformers 220-750 kV.

**Service**

• TPP, NPP and HPP operating equipment servicing: reconstruction, modernization, warranty maintenance, spare parts, author supervision, etc.;
• System equipment supply servicing: installation, start-up and adjustment works, commissioning, training, etc.;
• Engineering services: inspection, diagnostics, consulting services, etc.;
• Service of steam and hydraulic turbines;
• Service of turbogenerators and hydroturbosets;
• Service of steam turbines in the CCGT;
• Service of excitation systems of turbogenerators and hydrogenerators.
REPRESENTATIVE OFFICES AND BRANCHES OF THE COMPANY

- ARGENTINA
- BELARUS
- BULGARIA (BRANCH)
- CHILE (BRANCH)
- INDIA
- IRAQ
- LATVIA (BRANCH)
- SERBIA
- SYRIA
- TURKEY (BRANCH)
- VIETNAM
- VIETNAM (BRANCH)

RUSSIA:
- Balakovo, Saratov region
- Blagoveschensk, Amur region
- Chakovsky, Perm Region
- Komsomolsk, Ivanovo region
- Mytishchi district, Moscow region
- Norilsk, Krasnoyarsk Territory
- Novovoronezh, Voronezh region
- Rybinsk, Yaroslavl region
- Sayanogorsk, the Republic of Khakassia
- Sergiev Posad district, Moscow region
- Sochi, Krasnodar Territory
- Sosnovy Bor, Leningrad Region
- Starnt, Talakan, Bureya district, Amur region
- Volzhsky, Volgograd region
- Yekaterinburg, Sverdlovsk region
- Zhigulevsk, Samara region
THE COMPANY’S POSITION IN THE INDUSTRY

15 THE MAJOR TRENDS OF THE ECONOMIC SECTOR of the Company main business activity and the major factors affecting the industry conditions

17 THE MAIN ACTING AND EXPECTED COMPETITORS OF THE COMPANY on major activities

18 STRUCTURE OF WORLD INSTALLED CAPACITY

18 GENERAL ASSESSMENT OF THE COMPANY’S industry performance
The Major Trends of the Economic Sector of the Company Main Business Activity and the Major Factors Affecting the Industry Conditions

**Primary Energy Resources**
Currently, about 63% of the world's electricity is being produced by hydrocarbon fuel. In the meantime about 46% of the world’s electricity is being generated by coal-powered TPPs. The NPPs have about 6% in the world fuel and energy balance. The renewable energy sources, including hydro resources, is about 31%. According to the forecasts of the International Energy Agency, by 2040 the natural gas and nuclear fuel generation will be higher than coal, but electricity will be mainly generated by fossil fuel power stations. Among fossil fuels, gas will grow at the highest rate.

**Electric Energy Consumption**
According to the Company’s internal consensus forecast, global electric energy consumption in 2017 was about 24.1 trillion kW-h. The global electric energy consumption will increase about 1.3% per year by 2035. Meantime, the growth rates is forecasted to gradually decrease in the long-term perspective. After 2035, the world electric energy consumption may grow below 1% per year, which is explained by the slowdown of the world economic growth and the implementation of energy efficiency strategies.

According the Bloomberg New Energy Finance (BNEF) forecast, both demand and investments will grow in the global “green” energy (wind, solar, renewable). The world consumption of “green” energy is expected to grow by 58% by 2040, equaling to 2% of the average monthly growth.

The electric energy consumption will mostly increase in the countries in South-East Asia and Latin America. Nevertheless, electric energy consumption per capita will remain at a low level in these countries compared to developed ones.

In Africa, the electric energy consumption is expected to grow relatively slowly. Although a quarter of the world’s population will live in Africa by 2050, it will account for less than 10% of the world’s energy demand.

According to “SO UPS”, JSC, in 2017 the electric energy consumption in the Unified Energy System of Russia amounted to 1039.7 billion kWh, which was 1.3% more than the year before.

**Heat Power Engineering**
According to database information of Platts energy facilities, the global installed capacity of TPPs was about 3819 GW at the end of 2017. More than 60% of TPPs use steam power equipment. A new highly efficient technology sets a major world trend in developing thermal power. First of all, it concerns powerful steam units (600 — 1000 MW), designed for supercritical and ultra-supercritical steam parameters. Another one of these technologies is the combined-cycle plants based on latest generation high-efficiency gas turbines. The gasification of coal, which is projected to be widely used after 2020, is becoming increasingly widespread.
Hydropower engineering
According to database information of Platts energy facilities, the global installed capacity of HPPs was about 1182 GW at the end of 2017. According to the long-term forecast of the International Energy Agency, the installed capacity of hydroelectric power plants may increase by 1.5 times by 2040. About 90% of the new HPPs will be built in emerging countries which is due to almost complete exhaustion of hydro resources in developed countries and environmental restrictions. For example, in the USA and Western Europe, the hydro resources development is over 80%, while in China and India it does not exceed 25%. At the same time, Africa, Asia and Latin America account for 80% of the world economically sound and reserved hydro resources.

As seen from the projects being implemented in the world, building both large HPPs of a capacity of more than 1 GW and HPPs of medium and low capacity is expected in the long run.

Nuclear power industry
According to database information of Platts energy facilities, the global installed capacity of NPPs was about 376 GW at the end of 2017. In addition, about 79 GW of new NPP capacities have been under construction since 2015, with about 50% in the countries of South and South-East Asia, mainly in China and India, with nuclear technology diffusion. On a global scale, reducing the number of new NPPs is not planned in the long-term perspective.

In early 2018, the total installed capacity of NPPs in Russia was 27.9 GW.

Non-traditional renewable energy sources
According to database information of Platts energy facilities, the global installed generating capacity using non-traditional renewable energy sources (not including HPPs) is about 663 GW. By 2025, the installed capacity of power plants using non-traditional renewable energy sources (RES) can equal that of HPPs.

By 2035, about half of the total electricity is expected to be generated using renewable energy sources, including NPPs, hydroelectric power stations and non-traditional RES.

The energy projects using wind, solar and geothermal energy, as well as mini and micro HPPs remain the most dynamically developing and the most interesting for the investors.
THE MAIN ACTING AND EXPECTED COMPETITORS OF THE COMPANY ON MAJOR ACTIVITIES

**Competitors abroad:**

- Siemens — gas and steam turbines, turbogenerators, APCS;
- Andritz — hydro turbines and hydrogenerators, biomass boilers and boilers for waste incineration plants, auxiliary equipment for power plants;
- Mitsubishi Hitachi Power Systems — boilers, steam and gas turbines, hydro turbines, turbo- and hydrogenerators and other equipment for power plants;
- General Electric (GE), including Alstom assets — gas and steam and hydraulic turbines, APCSs, turbo- and hydrogenerators;
- Voith — hydro turbines, hydrogenerators, auxiliary equipment of HPPs;
- Bharat Heavy Electricals Limited (BHEL) — hydro turbines, hydrogenerators, steam turbines, turbogenerators, including for NPPs, gas turbines (under the licenses of western manufacturers), etc.;
- Ansaldo Energia — steam and gas turbines, turbo- and hydrogenerators;
- DOOSAN Heavy Industries — steam turbines, turbogenerators, steam boilers and reactors for NPPs;
- Dongfang Electric Corporation — gas and steam turbines, wind turbines, generators, boilers;
- Harbin Electric Corporation — wind generators, generators, steam and gas turbines;
- Shanghai Electric — steam turbines, transformers, spare parts for gas turbines.

**Competitors in the CIS countries:**

- “TURBOATOM”, PJSC, Ukraine — hydro turbines, steam turbines for TPPs and NPPs, gas turbines;
- State Enterprise Plant Electrotyazhmash, Ukraine — turbo- and hydrogenerators, large electric machines, electric motors.

**Domestic competitors (local producers):**

- UTW — steam turbines, gas turbines, gas-pumping units, diesel engines and diesel stations, turbo compressors;
- ELISIB — turbogenerators, hydrogenerators, motors, frequency converters, wind power plants;
- JSC UGM — diesel generators, electric motors, turbogenerators, low-power hydro turbines;
- JSC “Tyazhmash” — equipment for thermal power plants, hydraulic turbines, hydraulic turbines for small hydroelectric power stations, valves, pumps;
- Privod LLC — turbo- and hydrogenerators;
- JSC Ruselprom — turbo- and hydrogenerators, large electrical machines;
- JSC Atomenergomash — boiler and heat exchange equipment, equipment for gas and petrochemical industry;
- AAEM LLC — steam turbines and generators, complete supply of equipment for the NPP turbine island.
The Company has a significant number of power equipment installed in Russia and CIS countries.

Now, PJSC “Power machines” are implementing the projects in Russia, CIS countries, Northern and Eastern Europe, India, China, Latin America, Vietnam and other countries.

As of December 31, 2017, PJSC “Power machines” had orders worth of USD 5.38 billion. In 2017, contracting in Russia and CIS countries was about 51% of all contracts.

In the global market of electric power generation equipment, the Company’s share was about 1%.

In 2017, the contracts signed by PJSC “Power machines” amounted to USD 1,436 million.
PRIORITIES OF THE COMPANY’S ACTIVITIES

21
SCIENTIFIC AND TECHNICAL POLICY

23
BUSINESS MANAGEMENT SYSTEM TRENDS AND THEIR BRIEF DESCRIPTION
and their brief description
SCIENTIFIC AND TECHNICAL POLICY

The main directions of the Company’s scientific and technical policy for 2017 are:

- expansion of the manufactured equipment range by developing new innovative products with competitive technical specifications;
- involving RAS institutes and other leading domestic scientific organizations in product development;
- developing the financial and technical base for design departments and research laboratories, the laboratory and bench-test base and training of employees;
- facilitating the employment of qualified specialists and young people by design, technology and research units;
- advanced staff training via competitions, conferences for young people, etc.;
- analyzing the operation of similar developed equipment via marketing research of both domestic and imported equipment operating conditions;
- introducing modern power equipment component estimation and design procedures;
- analysis of PJSC “Power machines” equipment operation at power plants and providing recommendations on improving technical and economic indicators;
- patent research and providing a higher level of patent protection for new design solutions and technology.

In accordance with the approved Development Strategy of the Company in 2017, the innovative projects were continuously implemented in developing competitive products:

- low-speed and high-speed turbines of a capacity of 1255 MW and higher, as well as turbogenerators for WWER-TOI and NPP-2006 projects;
- steam turbine of a capacity of 660 MW for TPPs for supercritical steam parameters for domestic and foreign customers;
- steam turbines of a capacity of 100-300 MW for operation in the CCGT unit;
- modernization packages of steam turbines of a capacity of 200-1200 MW with improved technical and economic indicators, including a transfer in CCGT schemes operation;
- high-efficiency radial-axial hydro turbines for heads of 250-400 m;
- rotary-blade turbines of high reliability for heads of 15-25 m with improved cavitation qualities;
- synchronous motor SDP-6-1800;
- AC electric traction drive for a dump truck BELAZ of a carrying capacity 450 t (CTED-450);
- modernization packages for turbogenerators of the HCT series;
- engine-generator, in synchronous and asynchronous design with excitation system and starting device for pumped storage power plants.

In the course of 2017, the Company was working on increasing the reliability and technical level of the manufactured products, specifically:

- development, testing and manufacturing of a steel 1760 mm runner blade for a low-speed steam turbine;
- testing the model flow path of low-pressure low-speed steam turbine on a large-scale test stand of the Company;
- development of welding turbine rotor technology for ultra-supercritical parameters and research of the properties of welded joints;
- development and introduction of the modern firebox engineering design procedures and standard solutions for the choice of combustion schemes for fuel groups and range of steam generator capacities;
- development of new electrical insulation systems for rotating electrical machines based on solving the related problems of thermophysics and electrical engineering;
- designing new types of shroud seals using metal-ceramic inserts from new materials for steam turbines of TPP;
- designing thrust bearings for steam turbines with high axial bearing capacity;
- development and experimental testing of large journal brasses for low-speed steam turbine s/t K-1200-6.8/25;
- calculation and experimental studies of cavitating flows in the flow path of hydro turbines;
- designing the insulation for hydrogenerator rods that are manufactured using vacuum pressure impregnation;
• perfecting the winding insulation design for turbogenerators with indirect air and hydrogen cooling, manufactured using new high heat-conductive and semiconducting materials;
• selection and optimization of thermal schemes and circuit solutions for steam generators of various capacities in order to reduce metal consumption, hydraulic and aerodynamic resistance of steam water and air-gas pipelines;
• researching the influence of the heat flow density, the mass flux, the size of the pipes, the medium input parameters on the permissible by temperature reliability enthalpy increment in the steam generator furnace walls.

To carry out R&D in 2017, leading domestic scientific and foreign educational institutions were involved:
• FPFIS “Sobolev Institute of Mathematics, Siberian Branch of the Russian Academy of Science”;
• FPFIS “Kutateladze Institute of Thermal Physics, Siberian Branch of the Russian Academy of Science”;
• OJSC NPO CKTI;
• Peter the Great St.Petersburg Polytechnic University;
• FSBEI HPE “The South Urals State University”;
• FSUE Central Research Institute of Structural materials “Prometey”;
• PTF CNII MASH LLC;
• State Scientific Institution “Minsk Institute of Powder Metallurgy” (Belarus) and others.

The main directions of the R&D program in 2017:
• creating highly efficient flow paths for new or reconstructed steam turbine and hydro turbine equipment;
• creating steel runner blades for the last stages of powerful low-speed steam turbines with a length of 1760 mm, and their experimental full-scale testing;
• development and research of new materials, design of units and methods of calculation for increasing power equipment reliability;
• experimental testing of new structural elements of equipment in order to increase their operation efficiency and reliability;
• the development of high-performance software systems for processing experimental data, calculating the parameters of power equipment.

Much attention is paid to the adoption and development of new technologies in the production of innovative power equipment. Specifically, the work continued:
• on the development of the technology for manufacturing welded hollow guide blades for low-speed steam turbines of 1255 MW capacity;
• the adoption of explosion welding and friction stir welding for the manufacture of critical components of electric machines;
• mastering the technology of welding low-pressure rotors for a powerful low-speed turbine and composite turbine rotors for ultra-supercritical steam parameters.
BUSINESS MANAGEMENT SYSTEM
TRENDS AND THEIR BRIEF
DESCRIPTION

The Company continues to develop its Business Management System in order to
develop a new sales market, as well as to expand its energy equipment trading
area.

To date, the Company follows an evolutionary path of development, which is
aimed at improving production processes. Applying the best world practices
and methods, trying and implementing the tools of lean production, the Company
receives a synergistic effect through maximum involvement of all Company
employees, without exception, in process improvement.

The project plan of mini-Transformations comprises the main divisions
of the Company. In 2017, the Company was still focused on improving the production
unit. In addition, mini-Transformation projects in design and engineering divisions
and special projects in sales business units (Local Agile, Project Management,
Sales Pipeline Management, etc.) were launched.

The foundation for introducing changes is the Company’s values: respect for people,
security, attention to clients, efficiency, teamwork and innovation. They are inextricably
linked with the following areas of work, outlined in the framework of development projects:

People of the Power Machines Company
This branch is the most extensive and considers: the functioning of the mechanisms
for submitting proposals and solving problems; the effectiveness of meeting
and reporting systems; the relevance and convenience of visualization
and information systems; model for assessing the skills and expertise of employees;
the effectiveness of regular communications and a system of cascading information
and goals; the goal-setting system and KPI.

Customer-oriented approach
This branch considers: system for assessing the satisfaction index of internal
and external consumers (customers); means for recording the results of
measurements and final decisions; mechanisms for reviewing and solving
problems, processing and visualizing the results.

Quality
The branch considers: accounting issues and recording of all available statistics
on product quality; mechanisms for solving problems related to quality; means
of documentation and visualization of the developed solutions and measures;
a system of multilevel quality control and standardization of best practices
and solutions.

Terms
The branch considers: the effectiveness of existing production flows of value
creation; system of search and minimization of losses; standardization of iterative
processes and introduction of best practices.

Safety
The main focus of the branch is to monitor compliance with labor protection
and industrial safety standards and regulations, as well as staff training
and informing; exclusion and prevention of hazardous production operations;
accounting and maintaining statistics with regular visualization of results.
Expenses
The branch considers: issues regarding the implementation of the cost reduction program for the main cost items in the context of both individual units and enterprises of the Company as a whole; applying various techniques and tools to optimize the cost of the product at the design and development stages; building a comprehensive and sustainable system for the search and analysis of material and labor costs.

Revenues and profits
The branch considers: issues of increasing contracting by developing a sales pipeline management system; increase the number of tenders / competitions / biddings awards due to closer communication with a customer and joint development of solutions; shortening the terms for the submission of technical and commercial proposals; implementation of new project management tools.

As part of the implementation of projects for the development of the Power Machines Business Management System, the Company’s personnel are trained at all levels, including workers and specialists. For this purpose, various trainings, seminars and workshops are arranged.

The main goal of the Power Machines Business Management System is to create a sustainable competitive advantage through the correct behavior of people, building a culture of continuous improvement, formed by:
- involving all employees in achieving goals / searching for and leaping at opportunities;
- using a constantly evolving set of interrelated elements/practices/tools.

In 2018, the Company plans to move to the next stage of development of the Business Management System in production units with a focus on solving cross-functional problems throughout the value chain. Projects were launched to increase the efficiency of long-cycle semiproducts supply and to improve product quality. It is planned to continue the work on development of the Business Management System in design and technological and sales divisions.
BOARD OF DIRECTORS REPORT
ON THE RESULTS OF THE COMPANY’S DEVELOPMENT IN PRIORITY AREAS OF ACTIVITY

27 PRODUCTION ACTIVITY

29 INVESTMENT ACTIVITIES AND TECHNICAL RE-EQUIPMENT

30 INTELLECTUAL PROPERTY

31 FINANCIAL RESULTS

32 COMPANY’S BONDS

35 CREDIT RATINGS
PRODUCTION ACTIVITY

The output of marketable product by PJSC “Power machines” in 2017 in value terms is 25,076 million rubles, while in physical terms the Company produced turbine equipment with a total capacity of 3.6 GW and generator equipment with a total capacity of 2.2 GW.

In 2017, the Company manufactured turbine and generator equipment for large orders for Kudankulam NPP, Unit 3, Belarusian NPP, Unit 2, Armenian NPP, Krasnoyarsk HPP, Taman TPP, Karaganda SDPP, Ust-Ilimsk HPP, Votkinsk HPP, Kostroma SDPP, Rybinsk HPP.

Structure of manufactured product (marketable output) by PJSC “Power machines” in 2017 (% of the value indicator)
### Production of the main power engineering equipment by PJSC “Power machines” in 2016-2017:

<table>
<thead>
<tr>
<th>Type of equipment</th>
<th>2016</th>
<th>2017</th>
<th>Name of the facility (2017)</th>
<th>Country</th>
<th>pcs.</th>
<th>MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steam turbines</td>
<td></td>
<td></td>
<td>Belarusan NPP, unit 2</td>
<td>Belarus</td>
<td>1</td>
<td>1200</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Taman TPP — No. 3, 4</td>
<td>Russia</td>
<td>2</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Karaganda SDPP — No.2</td>
<td>Kazakhstan</td>
<td>1</td>
<td>130</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PJSK Krasnogorsk HPP — No. 1, 2</td>
<td>Russia</td>
<td>2</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ust-Ilimsk HPP — No. 3, 4</td>
<td>Russia</td>
<td>2</td>
<td>480</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>HSA Binh HPP</td>
<td>Vietnam</td>
<td>1</td>
<td>240</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Votkinsk HPP — No. 7, 5</td>
<td>Russia</td>
<td>2</td>
<td>234</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Rybinsk HPP — No. 1</td>
<td>Russia</td>
<td>1</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Kudankulam HPP, unit 3</td>
<td>India</td>
<td>1</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Kostryma SDPP</td>
<td>Russia</td>
<td>1</td>
<td>350</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Armenian NPP — No. 3</td>
<td>Armenia</td>
<td>1</td>
<td>220</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Karaganda SDPP — No. 4</td>
<td>Kazakhstan</td>
<td>1</td>
<td>130</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Pregolsky TPP — No. 2, 4</td>
<td>Russia</td>
<td>3</td>
<td>120</td>
</tr>
<tr>
<td>Hydraulic turbines</td>
<td>8</td>
<td>1191</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turbogenerators</td>
<td>7</td>
<td>840</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>1820</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>1820</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>1820</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hydrogenerators</td>
<td>11</td>
<td>1062</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>220</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large electrical machines</td>
<td>429</td>
<td>417</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td>1015.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>280.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- OJSC «BELAZ» — Management Company of Holding «BELAZ-HOLDING» 90 t
- OJSC «BELAZ» — Management Company of Holding «BELAZ-HOLDING» 136 t
- OJSC «BELAZ» — Management Company of Holding «BELAZ-HOLDING» 11.5 t
- OJSC «BELAZ» — Management Company of Holding «BELAZ-HOLDING» 160 t
- The ’Uralmashplant’ Joint-Stock Company
- Avtotakhinmash LLC
- BELAZ-24 LLC
- SilTrade LLC
- Krasnogorsk-BelazService LLC
- Diesel Komplekt LLC
- MOSENERGO TPP-27
- Cheboksary HPP — No. 11
- PJSC Enel Russia
- Nordisk CHPP-2
- Kahhalgaon TPP
- Taimionkoski HPP
- Republic of Kyrgyzstan
- Russia
- India
- Republic of Kyrgyzstan
- Russia
- Russia
- India
- Finland
- Russia
- India
- Finland
INVESTMENT ACTIVITIES
AND TECHNICAL RE-EQUIPMENT

According to the PJSC “Power Machines” Business Plan, in 2017, 3.3 billion rubles was allocated to finance the Company’s investment program, of which 2.5 billion were capital investments. For this, both own and borrowed funds were used.

The investment program of 2017 was a continuation of the strategic development of the Company, the purpose of which is to create a modern industrial enterprise with updated rationally located production assets, to reduce the cost of manufactured products, to introduce new types of products with technical characteristics corresponding to or superior to world analogues. The priority investment project since 2016 is the “Low-speed turbine”, which is aimed at a comprehensive upgrade of production with the introduction of innovative technical solutions. In 2017, 1.34 billion rubles were allocated for the project “Low-speed turbine”.

In 2017 at the production site of LMZ the following supplies were provided: multi-purpose welding tractors; portable machine for joint processing of holes in the flanges of hydraulic turbine units; coordinate measuring machine for runner blades; installation for automated welding under a layer of flux and surfacing. A shaft gas furnace was put into operation and a radial forging machine was modernized. The implementation of a unique event for the modernization of internal grinding machines is continuing.

Investments in the production site of LMZ amounted to about 87 million rubles.

In 2017, investments in the production site of the Electrosila Plant were aimed at maintaining production and amounted to about 164 million rubles. A milling machining center, a CNC lathe, and also a cutting flatbed plotter have been delivered.

Another major direction of the investment program of the PJSC “Power machines” is the implementation of an extensive program of research and development. Investments in R&D amounted to more than 64 million rubles.

In addition, the investment program of 2017 includes activities aimed at:
- development of the Company’s production and laboratory-bench base for more efficient model tests;
- improvement Company’s employees social welfare;
- industrial and fire safety, labor protection;
- enterprise energy efficiency;
- the improvement of information technology and the maintenance of the existing information technology fund.
INTELLECTUAL PROPERTY

The main goal of the intellectual property rights management is to ensure the competitiveness of the Company’s products in terms of providing technical level and patent-legal indicators, returning investments to innovative projects and strengthening the Company’s positions in the world markets.

The Company owns more than 200 items of intellectual property. Such items of legal protection are inventions, utility models, production secrets (know-how), computer programs, databases.

The process of identifying and ensuring legal protection of the results of intellectual activity is carried out in accordance with the legislation requirements of the Russian Federation and local regulatory acts of the Company. In addition, the Company created and successfully introduced a system of motivation and encouragement of developers’ inventive activity.

The implementation of PJSC “Power Machines” unified intellectual property rights management policy is carried out in the following areas:
- the establishment of exclusive rights of the Company to the employees’ intellectual activity results in the development of new products and modernization of equipment created earlier;
- the formation of intangible assets based on the R&D results to increase the value of the Company’s assets and reduce the cost of manufactured products;
- commercialization of the Company’s intellectual activity results by means of alienating or granting exclusive rights to use them;
- stimulation of creating new design and technological solutions;
- protection of the Company’s economic interests in the intellectual property field.
FINANCIAL RESULTS

The Company’s revenue for the 12 months of 2017 amounted to 53,182 million rubles, which is 10.5% higher than in 2016.

Profitability of gross profit in 2017 was 9.6%, which is in the range corresponding to the industry.

At the end of 2017, a loss of 9,849 million rubles was sustained. The main reasons for the loss are the significant amount of interest expenses on borrowed funds and non-monetary one-time effects.

The stock of orders as of December 31, 2017 compared to the previous period increased by 8%. The volume of contracting in 2017 was 10 times higher than the year before, which provided additional cash inflows and led to an improvement in cash flow performance relative to 2016.

Cash inflows from operating activities in 2017 amounted to 59,089 million rubles. Cash at the end of 2017 amounted to 12,227 million rubles.

*Data are given in accordance with RAS.*
**COMPANY’S BONDS**

In 2017, the coupon yield on the Series 02 bonds was paid for the periods (coupon periods):

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount of Yield to be Paid on Bonds, Rubles</th>
<th>Aggregate Amount for All Bonds, Rubles</th>
<th>Payment Date</th>
<th>Total Amount Paid, Rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>from 06/10/2016 to 06/04/2017</strong></td>
<td>46.37</td>
<td>4 328 546.76</td>
<td>06.04.2017</td>
<td>4 328 546.76</td>
</tr>
<tr>
<td><strong>from 06/04/2017 to 05/10/2017</strong></td>
<td>46.37</td>
<td>4 328 546.76</td>
<td>05.10.2017</td>
<td>4 328 546.76</td>
</tr>
</tbody>
</table>

In 2017, the coupon yield on the Company’s exchange-traded bonds was paid:

- **series BO-01 for periods (coupon periods):**

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount of Yield to be Paid on Bonds, Rubles</th>
<th>Aggregate Amount for All Bonds, Rubles</th>
<th>Payment Date</th>
<th>Total Amount Paid, Rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>from 26/10/2016 to 25/04/2017</strong></td>
<td>61.33</td>
<td>306 650 000.00</td>
<td>26.04.2017</td>
<td>306 650 000.00</td>
</tr>
<tr>
<td><strong>from 26/04/2017 to 25/10/2017</strong></td>
<td>61.33</td>
<td>306 650 000.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
the specified time (date) for the payment of yield on the bonds of the issue: 25.10.2017  
**total amount of yield paid on all bonds of the issue, rubles:** 306 650 000,00

- **series BO-02 for periods (coupon periods):**

<table>
<thead>
<tr>
<th>Period</th>
<th>Yield Amount</th>
<th>Bond Amount</th>
<th>Date</th>
<th>Interest Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>from 26/10/2016 to 26/04/2017</td>
<td></td>
<td></td>
<td>26.04.2017</td>
<td>306 650 000,00</td>
</tr>
<tr>
<td>the amount of yield to be paid on the bonds of the issue, in money terms, per one bond of the issue, rubles:</td>
<td></td>
<td>61,33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the amount of yield to be paid on the bonds of the issue, in monetary terms in aggregate for all bonds of the issue, rubles:</td>
<td></td>
<td>306 650 000,00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **series BO-03 for periods (coupon periods):**

<table>
<thead>
<tr>
<th>Period</th>
<th>Yield Amount</th>
<th>Bond Amount</th>
<th>Date</th>
<th>Interest Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>from 26/09/2016 to 27/03/2017</td>
<td></td>
<td></td>
<td>27.03.2017</td>
<td>248 050 000,00</td>
</tr>
<tr>
<td>the amount of yield to be paid on the bonds of the issue, in money terms, per one bond of the issue, rubles:</td>
<td>49,61</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the amount of yield to be paid on the bonds of the issue, in monetary terms in aggregate for all bonds of the issue, rubles:</td>
<td></td>
<td>248 050 000,00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the specified time (date) for the payment of yield on the bonds of the issue:</td>
<td></td>
<td></td>
<td>25.10.2017</td>
<td></td>
</tr>
</tbody>
</table>

**total amount of yield paid on all bonds of the issue, rubles:** 306 650 000,00
the amount of yield to be paid on the bonds of the issue, in monetary terms in aggregate for all bonds of the issue, rubles: 248 050 000,00

the specified time (date) for the payment of yield on the bonds of the issue: 25.09.2017

total amount of yield paid on all bonds of the issue, rubles: 248 050 000,00

- series BO-04 for periods (coupon periods):

<table>
<thead>
<tr>
<th>Period</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>from 26/09/2016 to 27/03/2017</td>
<td>from 26/09/2016 to 27/03/2017</td>
<td>from 26/09/2016 to 27/03/2017</td>
</tr>
</tbody>
</table>

the amount of yield to be paid on the bonds of the issue, in money terms, per one bond of the issue, rubles: 49,61

the amount of yield to be paid on the bonds of the issue, in monetary terms in aggregate for all bonds of the issue, rubles: 248 050 000,00

the specified time (date) for the payment of yield on the bonds of the issue: 27.03.2017

total amount of yield paid on all bonds of the issue, rubles: 248 050 000,00

from 27/03/2017 to 25/09/2017

the amount of yield to be paid on the bonds of the issue, in money terms, per one bond of the issue, rubles: 49,61

the amount of yield to be paid on the bonds of the issue, in monetary terms in aggregate for all bonds of the issue, rubles: 248 050 000,00

the specified time (date) for the payment of yield on the bonds of the issue: 25.09.2017

total amount of yield paid on all bonds of the issue, rubles: 248 050 000,00

- series BO-05 for periods (coupon periods):

<table>
<thead>
<tr>
<th>Period</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>from 07/12/2016 to 07/06/2017</td>
<td>from 07/12/2016 to 07/06/2017</td>
<td>from 07/12/2016 to 07/06/2017</td>
</tr>
</tbody>
</table>

the amount of yield to be paid on the bonds of the issue, in money terms, per one bond of the issue, rubles: 51,11

the amount of yield to be paid on the bonds of the issue, in monetary terms in aggregate for all bonds of the issue, rubles: 255 550 000,00

the specified time (date) for the payment of yield on the bonds of the issue: 07.06.2017

total amount of yield paid on all bonds of the issue, rubles: 255 550 000,00

from 07/06/2017 to 06/12/2017

the amount of yield to be paid on the bonds of the issue, in money terms, per one bond of the issue, rubles: 51,11

the amount of yield to be paid on the bonds of the issue, in monetary terms in aggregate for all bonds of the issue, rubles: 255 550 000,00
CREDIT RATINGS

On April 4, 2017, the Company was assigned the credit ratings by international rating agency Moody’s:

<table>
<thead>
<tr>
<th>Type of rating</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate credit rating by international scale</td>
<td>B1, downward revision</td>
</tr>
<tr>
<td>Probability of default rating</td>
<td>B1-PD</td>
</tr>
</tbody>
</table>

On July 17, 2017, the Company was assigned the credit ratings by international rating agency Moody’s:

<table>
<thead>
<tr>
<th>Type of rating</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate credit rating by international scale</td>
<td>B2, negative outlook</td>
</tr>
<tr>
<td>Probability of default rating</td>
<td>B2-PD</td>
</tr>
</tbody>
</table>
DESCRIPTION OF THE COMPANY’S COMPETITIVE ADVANTAGES

Following the current trends in power engineering, PJSC “Power machines” is implementing an active innovation policy in the field of developing the product line. Specifically, 1,200 MW low-speed turbo-units are being developed for NPPs. A pump-turbine project is being developed for PSPPs for heads of up to 100 meters. In the meantime, the Company is a leader in the production of high-speed turbo-units for NPPs. PJSC “Power machines” produces a wide range of equipment for various operating parameters.

The Company is an integrated supplier of equipment and solutions for the customer with constantly developing expertise. At the end of 2013, a transformer plant (a joint venture with Toshiba Corporation) was commissioned, which has modern equipment and technology applied for manufacturing high-voltage transformers that has no analogues in Russia. In 2017, the Company launched a new joint venture with Linde Group, with a goal to produce equipment for natural gas liquefaction. When Linde Power machines LLC was created, the Company sought to develop its expertise and enhance its competitive advantage in supplying equipment for natural gas liquefaction via the use of spiral wound heat exchangers manufactured in the Russian Federation by the aid of advanced German technologies.

The Company provides all types of services — from one time repairs to long-term maintenance agreements.

While developing the products offered, the Company implements programs aimed at enhancing customer oriented approach.

COMPANY DEVELOPMENT STRATEGY

The main long-term strategic development goals for PJSC “Power Machines” are:

- holding the leading positions in the domestic market of power engineering by introducing reliable and effective integrated solutions to meet the needs of the global energy system;
- expansion to the promising dynamically developing markets of Africa, South-East Asia, India, Latin America.

To achieve these goals, the Company faces the challenges of increasing the level of service and interaction with customers, reducing costs, improving project management, strict implementation of the contracting plan, improving production technologies and business processes, and developing personnel at all levels.

To solve the set tasks, the Company defines strategic business development directions, including:

Business Management System Development and Project Management

The Company continues to develop its Business Management System in order to develop a new sales market, as well as to expand its energy equipment trading area. Last year, the development of the Business Management System of PJSC “Power machines” was accelerated, focusing on supporting the Company by tools that help to solve corporate problems more efficiently.

Specifically, the approach was changed to the projects implementation, focusing on solving the production and marketing problems. Today, the Company is gaining the experience of implementing EPC-contracts, making this offer in the world market. In this regard, the Business Management System of PJSC “Power machines” helps to effectively develop the expertise of project management both in Russia and abroad.
Increase of customer focus and service development
To increase the customer focus and diversify the revenue structure in 2017, the Company prioritized three key service areas: modernization packages, spare parts and services. To improve the quality of interaction with customers, the Service Center was established in the Company’s structure, incorporating all the services, which will make it possible to be more customer oriented.

In addition, an important innovation is the establishment of a contact center based on the SAP Hybris tool, which aimed at building an active sales management system using the sales pipeline management procedure. In 2017, a multi-channel contact center, a unified customer base and customer relation journal were created with SAP Hybris. Implementation of the strategic initiative has a significant impact on sales efficiency and the sales department as a whole. It reduces decision-making time and optimizes cross-functional communications by developing a single information field.

Development of engineering
The main task of the Company engineering development is to bring the design to a completely new level and to maximize the use of the internal potential of the design departments. Since 2017, the Company has been implementing the “Engineering Development” project, including all engineering and production services. For each design department, the work is carried out in accordance with the approved development plan, which includes all aspects of its activities, related to design methods, developing procedures to avoid incorrect technical solutions, and staff training as well.

In the meantime, modern software systems are commercially employed, which will allow creating a single information field for design and technological preproduction, procurement and production. The unification of the settlement software packages will allow to form a universal settlement space for the Company. In future, the “Engineering Development” project envisages introducing modern universal IT-tools (automated workplaces with parametrized geometry of units and integration of CAD and CAE-packages), expansion of numerical modeling and numerical calculations not only in specialized calculation sectors, but also in design departments, which will allow to partially skip full-scale tests or reduce their cost.

Involving leadership and staff development
The Company applies the principles of involving leadership for managers at all levels, improves the performance and technological discipline of the staff, develops a corporate culture aimed at following the values of the Company, openness and support, as well as prompt resolution of problems. This approach allows to achieve an understanding of the Company’s goals and to increase the level of employee engagement and client-orientation in general.

Production improvement and cost reduction
A new approach to the work of PJSC “Power Machines” Business Management System is aimed at the permanent work on improving the quality of products, reducing the production time, increasing labor productivity and overall cost reduction.

The Center for Business Management System Development has the annual ambitious goals for reducing costs, improving the production discipline with focusing on the timely orders execution, and minimizing the level of defects. The strategic target levels of such indicators are achieved in the Company by applying effective tools used by the world’s leading manufacturers, including Lean 6 Sigma, 5C, which significantly increases the labor productivity, quality and competitiveness of PJSC “Power machines” products.

Diversification of activities
Linde Power machines LLC, established in the reporting year jointly with Linde AG to localize the production of spiral wound heat exchangers for natural gas liquefaction, is the Company’s work continued on import substitution. One of the first results of that was the creation in 2011 of Power Machines Toshiba High-Voltage transformers, Limited Liability Company (PMTT, LLC), a joint venture with Toshiba Corporation. In the shortest time, PMTT, LLC has mastered the production of transformers of a voltage class ranging from 110 to 750 kV, which proved the capability of PJSC “Power machines” to effectively implement the business strategy aimed at broadening the range of products and creating energy-efficient and knowledge-intensive products for the industry.

Development of new modern products
In the annual Product and Market Strategy, the Company looks for the opportunities for diversifying its product portfolio, specifically by broadening the current range of power-generating equipment. The work is
being conducted for the expertise in new areas of development outside the customary areas, for example, in renewable energy sources.

In addition, the Company is constantly working on the development of new equipment throughout the product line. The efforts are focused on strategic products with high added value, specifically a low-speed turbine unit of a capacity of 1255 for NPPs, a steam turbine and a boiler for ultra-supercritical steam parameters of 660 MW, blades of marginal length (1220 mm and 1760 mm) for steam turbines, ecological and efficient hydraulic turbines, as well as complete equipment for the items.

In addition to the above directions, PJSC “Power machines” looks towards implementing the following strategic initiatives:

• replacing the supplies of foreign manufacturers’ equipment in the domestic market, including related industries;
• increasing the level of contracting in the external market segments, with remaining strong demand for power engineering products;
• strengthening of cooperation with customer and with their main shareholder — the government bodies;
• elaborating the issues of obtaining special investment contracts and other benefits for import substitution projects;
• joint work with potential customers to obtain a targeted loan for financing construction projects of new facilities and technical re-equipment;
• optimization of the Company’s product portfolio using the capabilities of OJSC KTZ, OJSC TKZ Krasny Kotelschik and partner enterprises in the production cooperation program;
• the Company’s staff development.
SOCIAL RESPONSIBILITY

41 HUMAN RESOURCES POLICY

42 CORPORATE SOCIAL RESPONSIBILITY

44 OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY

46 ENVIRONMENTAL PROTECTION
HUMAN RESOURCES POLICY

The human resources policy of the Company is focused on creating a team of specialists which share common goals and are motivated to highly efficient work, an open communication and feedback.

Training and development are the main priorities in the work with the staff. Annually, the Company invests significant funds to assess and develop the expertise necessary for the performance quality and the achievement of the goals set for the Company, departments and every employee.

The corporate training programs, seminars and trainings, professional development programs are conducted for the Company’s employees.

In 2017, about 65 million rubles was spent on staff development, which funded the training for about 3500 employees of the Company. On average, each employee was trained in three programs.

Special attention was paid to the training of employees under of PJSC “Power machines” Business Management System projects:

The project “People of Power machines” aimed at developing and promoting the Power Machines Business Management System, introducing unified work standards, strengthening of cross-functional communications. More than 815 people have completed training as a part of the project, including:

- “Achieve More Together” program aimed at leadership culture and work standards, with the participation of 34 leaders in 2017.
- “School of the Master” program aimed at increasing of managerial expertise, personal effectiveness, management skills of the production site, with the participation of 98 production managers in 2017.
- 683 employees completed managerial training for the Company’s managers and succession candidates.

The “Continuous Improvement” project aimed at increasing operational efficiency to the level of the best world practices by the process of continuous improvement. 1043 employees of the Company were trained, majoring in «Tools for solving problems», «Quick readjustment», «Fundamentals of continuous improvement».

Within the «Customer-oriented approach» project, the managers of marketing projects were trained in project management skills in 2017. The main goal of the training included improving the project management for the manufacturing of the Company’s products, increasing customer satisfaction, with training of 66 employees.

The Company continues training employees of engineering and technology departments, as a part of the «Improvement of design developments» project. In 2017, 25 programs were arranged for the development of the design departments and engineering offices staff, involving 404 employees.

In 2017, the 8th Conference of Young Specialists of Engineering and Technical Services (more than 80 specialists) and the contest «The Best Designer of the Year» (12 participants) were held.

For developing professional expertise, the Company’s employees took part in various seminars on accounting, legal and personnel issues, maintenance of production equipment, etc. As a whole, in the course of 2017, 315 employees were trained in professional development programs.

As a part of the execution of contracts for the supply of equipment by customers’ orders (companies purchasing the Company’s equipment), information and consulting sevices were provided to specialists of the following plants and companies: JSC «NPA «Arktika», Blagoveshchensk TPP, the “Uralmashplant” Joint-Stock Company, OJSC “BELAZ”, JSC «FEP «Zvezda», JSC “Karelsky okatysh”.

Facilitating the employment of young specialists, the Company implements a vocational guidance program for students of technical schools, colleges and universities, arranges meetings with representatives of the Company, guides tours on grounds of PJSC “Power machines”.
For senior students and graduates of educational institutions, all types of practice are annually arranged: production, engineering, pre-graduation. In 2017, PJSC “Power machines” provided the apprenticeships for 243 students, guiding tours for 251 students.

Another priority area of the Company’s HR Policy is the evaluation of staff performance. Annually, the Company carries out the following activities:

- Feedback of compliance with corporate values (360 degrees): in 2017 more than 800 leaders received a feedback of 360 degrees. As a whole, about 4000 employees were involved in the process.
- Discussing goals with employees, i.e. the results of work (achieving individual goals), tasks for the next year, career expectations and individual development plans. In 2017, such meetings were held with participation of all employees up to the level of specialists, with more than 4000 employees.

HR policy, implemented in PJSC “Power machines”, is also covering its subsidiaries — OJSC KTZ, OJSC TKZ Krasny Kotelshchik, “Power machines” LLC — Plant “Reostat” and PMTT, LLC, their employees took an active part in the implemented programs, arranging similar programs and events in their companies.

**CORPORATE SOCIAL RESPONSIBILITY**

In 2017, the Company continued to develop projects in the domain of social responsibility and social partnership.

Every year the Company implements social programs aimed at improving the working conditions and the life quality of employees. In 2017, the employees of Power Machines and their family members were granted 425 travel voucher, including 237 vouchers during the holiday period. 145 vouchers were granted for sanatorium treatment, 19 of them to the employees involved in hard and (or) dangerous labour conditions. The workers received 383 vouchers for children’s vacations. The Company covered 60% of the cost of vouchers to resorts, as well as 70% — for employees involved in hard and (or) dangerous labour conditions, 50% of the cost of vouchers — for health centres and recreational facilities.

During the school holidays, the recreation was provided in children’s health camps of the Leningrad region and the Black Sea coast for the employees’ children. The facilities maintenance was paid, as provided with the terms of the Collective Agreement. The Company’s compensation from the full cost of a voucher for children was:

- for the summer period — 80% (157 vouchers) for the first time, 70% (37 vouchers) for the second time;
- for autumn, winter, spring periods — 80% (96 vouchers);
- for large family and single parent employees — 100% of the cost of the voucher (93 vouchers per year).

Corporate catering is arranged on all production sites involving catering companies. Set-meals can be bought at a fixed price. The employees involved in hard and (or) dangerous labour conditions, are subject to regular medical examinations. They were provided with milk and fruit juice.

In 2017, the Donor’s Days were held on the St. Petersburg sites of the Power Machines with 14 attendances of the city blood transfusion station, with participation of 577 employees. It is 35% more than last year. Medical services programs were funded by the Company, the state insurance and the employees. Nonresident employees were provided with accommodation in the city hostels by contracts with the Company, and the house rent was remunerated for the others.

The Company implemented traditional social partnership programs related to cultural, educational and sports projects. In 2017, the Company’s employees took part in the annual sports and athletics meeting. The XIV Power Machines Football Championship also took place, as well as winter and summer tourist gatherings.
The Open House Days continued for employees and their families. In 2017, the guests visited the Leningradsky Metallichesky Zavod. Every year more people take part in the Open House Days, and the feedback given, confirms that the event is very popular.

In support of the Year of Ecology in Russia, the Company held events jointly with the Committee for Industrial Policy and Innovation of St. Petersburg and district administrations. Volunteers from Power Machines and government agencies cleared garbage on the shore of the Gulf of Finland. Trees were planted in the Pioneer Park of the Kalininsky district. The ecological action «ART-Subbotnik» was held in the Mikhailovsky Garden jointly with the Russian Museum.

The development of corporate charity continued.

For the second time, the «Generous Tuesday» event took place at the Company’s production sites. In addition to traditional charity fairs, money was raised for a charity fund and books for the library of the cancer center.

Care for veterans of war and labor, former employees, is one of the most important parts of the Company’s social policy. The Councils of Veterans of LMZ and Electrosila, the Company’s Charity Fund are providing the support for veterans and former employees. Traditionally, memorable events and concerts are held on days commemorating key events of the Great Patriotic War.

During 2017, Power Machines continued cooperation with the Russian Museum and jointly with the Severgroup companies supported some remarkable cultural projects: an exhibition of paintings by Arkady Rylov, an exhibition of documentary materials for the 85th birthday of Andrei Tarkovsky. Power Machines also participated in the X International Festival «Imperial Gardens of Russia», where the Company presented the composition in the framework of a landscape exhibition-contest. Also, a seminar of experts of the Russian Center for Museum Pedagogy and Children’s Creativity of the State Russian Museum for the specialists of Cherepovets was held with the Company’s participation.

Power Machines continues to pay special attention to the best employees: the Alley of Honor is updated twice a year. There are the portraits of employees who have really shown their worth or achieved outstanding results.

During 2017, work continued on the expeditious coverage of the most important events in the Company’s life. The employees receive information from the issues of the corporate newspaper and news releases of corporate television, on the internal portal and information stands.

Throughout the year, a lot of work was done for the informational support of the Company’s key topics. Among them: cost reduction, improving the quality of project execution, involvement, implementation of the Business Management System tools.

These and other changes are noted both by the Company’s employees in the annual survey and by external experts: as of the results of 2017, the corporate newspaper «Power Machines» was included in the top 5 corporate editions of Russia according to the version of the business portal «Production Management».

The important tradition of quarterly meetings of the Company’s General Director with employees and management has been continued. The employees are aware of the current state of affairs, key tasks, can ask questions from the first person. As in previous years, in 2017 the main goal of Power Machines in the sphere of social partnership was to create a team of like-minded people who share the values of the Company and are aimed at solving common tasks.
OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY

Occupational Health

In the field of occupational health and industrial safety, PJSC “Power machines” is guided by the legislational requirements of the Russian Federation (Labor Code, Federal Law «On Industrial Safety of Hazardous Production Facilities», other federal laws and other regulatory legal acts of the Russian Federation). In 2017, the Company experienced 13 accidents. The main causes of accidents were personal carelessness and negligence of the victims when performing work or moving through the territory of the enterprise. As a result of 2017, in comparison with 2016, the Company’s Lost Time Injury Frequency Rate (LTIFR) was 1.01. In 2017, the workers exposed to harmful and unfavorable factors of the working environment and working conditions had a mandatory periodic medical examination. 5305 employees were examined. Based on the results of the examinations, the heads of the subdivisions received the acts with recommendations on the creation of appropriate working conditions. The employees who failed mandatory periodic medical examination, as well as in case of contraindications, were not allowed to work.

The quality of drinking water in the water supply system was monitored on a monthly basis in accordance with the requirements of SanPiN 2.1.4.1074-01. 208 water samples were taken. Physicochemical studies of 88 samples and bacteriological studies of 120 samples of drinking water from central water supply systems were carried out. According to bacteriological parameters, all samples met the requirements of SanPiN, the chemical indices of excess MPC were not revealed. In order to ensure the drinking regime in 2017, maintenance and repair of drinking water purification devices were carried out, allowing to clean, gasify and cool the water coming from the cold water supply system.

In 2017, 106 safety audits were conducted, which allowed a comprehensive assessment of the development of the Occupational Safety and Health management system and also to reveal and correct the system inconsistencies. In order to strengthen control over observance of labor protection requirements, 103 inspections were carried out in the divisions with execution of instructions to the heads of the divisions. Workers who committed violations of labor protection requirements were brought to disciplinary responsibility.

Expenses for labor protection measures in 2017 amounted to 86.6 million rubles, including 41.9 million rubles that were spent to purchase of special-purpose clothes, special-purpose footwear and other personal protective equipment, including abstergents and decontaminants. The “Plan for the financial provision of preventative measures for the reduction of occupational injuries and occupational diseases of employees and sanatorium-and-spa treatment for employees engaged in work with harmful and (or) hazardous production factors” was prepared and implemented at the expense of insurance contributions to the Social Insurance Fund of the Russian Federation. The Social Insurance Fund of the Russian Federation reimbursed the Company’s expenses for conducting periodic medical examinations of employees and purchasing PPE amounted to 27.5 million rubles.

To improve knowledge and strengthen the responsibility for compliance with labor protection requirements, the managers and specialists who organize, direct and conduct work at workplaces and production units, were trained in labor protection. In accordance with the terms and procedures established by the regulatory legal acts, the Company checked employees’ knowledge of the rules, norms and instructions for labor protection and industrial safety.

Industrial and fire safety

In the field of industrial and fire safety, the Company is guided by the Federal Laws «On Industrial Safety of Hazardous Production Facilities», «On Fire Safety» and other regulatory and legal acts of the Russian Federation, the Company standards and the Collective Agreement.

According to the Regulation «On the organization of industrial control over compliance with industrial safety requirements at hazardous production facilities of PJSC “Power machines”, the control was carried out by the method of comprehensive and scheduled inspections.
During the reporting period:

• comprehensive inspections — 31;
• scheduled inspections — 44.

As a result of the inspections, 517 violations were found, 504 of them were eliminated. The deadline for eliminating the remaining 13 events is planned for the 1st quarter of 2018. Based on the results of inspections, for the period of fault removal, the operation of 15 technical devices was suspended.

In the reporting year, work was carried out in the field of industrial and fire safety, including the examination of industrial safety of buildings, structures and technical devices on the production sites of LMZ and the Electrosila plant.

Certification body of JSC “RATTE” confirmed the validity of the Certificate of Conformity No. TC RU C-RU.М611.B00024 for grips with a carrying capacity up to 10 tons and the Certificate of Conformity No. TC RU C-RU.М611.B00023 on traverses with carrying capacity up to 250 tons.

An agreement was concluded with the Kalinin branch of the St. Petersburg city branch of the All-Russian voluntary organization «All-Russian Voluntary Fire Society» to equip the facilities of the Electrosila and LMZ plants with automatic fire fighting systems. Maintenance (recharging, warranty and after-sales service) of fire extinguishers in operation at the Company’s sites was carried out.

In 2017 the specialized organizations of KoNoS LLC and Florian LLC carried out works on:

• maintenance of automatic fire alarm systems, fire warning and automatic fire extinguishing systems installed in the Company’s divisions;
• prevention of fires and round-the-clock control of compliance with the fire regime in buildings and facilities on the territory of the Company’s production sites.

What is more, in 2017 a fire and tactical exercise was held at the Electrosila plant with the involvement of the detachment of the Federal Firefighting Service of the Moskovsky district in St. Petersburg, the department of supervisory activities and preventive work of the Moskovsky district of St. Petersburg, the TV channel «TKT-TV». It was held as a part of the program of the Ministry of Emergency Situations in St. Petersburg — «Affordable water supply».

Comprehensive fire-tactical exercises were conducted with the involvement of a detachment of professional emergency rescue teams on the site of the PPK Plant for the production of power equipment.
ENVIRONMENTAL PROTECTION

As a result of 2017, the total gross emissions into the atmospheric air are within the established limits.

In 2017, 18 passports for hazardous wastes were reissued and investigations of the efficiency of the Company’s cleaning the dust and gas collectors were carried out.

In the reporting year, the standards were established and the Company obtained the permission of the Federal Service for Supervision of Consumer Rights Protection and Human Well-Being for emissions of pollutants into the atmosphere for the power plant in Metallostroy.

In 2017, a draft of waste generation standards was developed as well as the limits for LMZ were obtained.

During the reporting period, industrial environmental control programs for all sites were developed.

Ecologists together with the social security department of the Company conducted an on-site inspection of the Company’s country facility (children’s health camp) for compliance with environmental legislation. As a result of the inspection, significant violations were detected and it was ordered to eliminate them.

In 2017, the plans for measures to reduce the discharge of sewage and pollutants into the centralized sewage system for KTL, LMZ and Electrosila Plant were amended and coordinated by SUE «Vodokanal of St. Petersburg».

The Company spent about 5 million rubles to implement measures on the environmental protection.
# Corporate Governance

## PRINCIPLES OF CORPORATE GOVERNANCE and their implementation in the Company

## THE BOARD OF DIRECTORS

## CORPORATE SECRETARY

## GENERAL DIRECTOR

## AUTHORIZED CAPITAL

## REPORT ON PAYMENT OF DECLARED (ACCRUED) DIVIDENDS on the Company’s shares

## THE COMPANY’S POLICY in the field of remuneration and (or) compensation of expenses

## INFORMATION ON THE AMOUNT OF REMUNERATION and compensation of expenses of the Company’s management bodies

## THE COMPANY’S AUDIT COMMISSION

## AUDIT AND RISK COMMITTEE OF THE BOARD OF DIRECTORS

## AUDITOR

## REGISTRAR
PRINCIPLES OF CORPORATE GOVERNANCE
AND THEIR IMPLEMENTATION IN THE COMPANY

The existing corporate governance system of the Company is based on unified corporate standards and is aimed at sustainable development and increasing the value of the Company’s share capital in the long term.

Consistency, transparency, effectiveness are the basic values that underlie the Company’s implementation of key principles of corporate governance:

- **Compliance with the current legislation.** PJSC “Power machines” ensures compliance with all requirements of the applicable corporate legislation of the Russian Federation and strives to follow international standards of corporate governance.

- **Operational efficiency of the Board of Directors.** The main task of the Board of Directors is to determine the priority areas of the Company’s activities, the concept and strategy of its development with the aim of increasing profit and competitiveness, ensuring the effectiveness of investments in the Company and its sustainable development.

- **Transparency of procedures.** The proceedings of the Company’s management and Company’s control are defined in the Charter and regulations on the General Meeting of Shareholders, the Board of Directors and the Audit Commission. All documents are posted on the corporate website www.power-m.ru.

- **Information disclosure.** The Company adheres the principles of information disclosure that are reflected in the Regulation on Information Policy in force since 2004. Information about the Company in the form of press releases is published in the mass media, including on the Company’s website.
THE BOARD OF DIRECTORS

The Board of Directors of the Company is governed by the Federal Law «On Joint-Stock Companies», the Charter and the Regulations on the Board of Directors of the Company.

The composition of the Board of Directors of the Company, including information on changes in the composition of the Board of Directors that took place in the reporting year, and information on the members of the Board of Directors:

The composition of the Board of Directors elected by the resolution of the General Meeting of Shareholders of the Company on June 28, 2013:

**Mordashov Alexey Alexandrovich — the Chairman of the Board of Directors**

Year of birth 1965.

Educational background: higher education — Leningrad Institute of Engineering and Economics; Business School of the University of Northumbria (Newcastle, United Kingdom), MBA Diploma.

Information on the primary employment (name of the legal entity, position):
General Director of JSC Severgroup.

The share of participation of the member of the Board of Directors in the Company's authorized capital, %: 0,0000000114825.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0,0000000114825.

**Voskresensky Igor Evgenievich — the member of the Board of Directors**

Year of birth 1968.

Educational background: higher education — Bryansk Transport Engineering Institute; St. Petersburg Humanitarian University of Trade Unions.

Information on the primary employment (name of the legal entity, position):
General Director of LLC Yurkon.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

**Egorov Aleksey Georgievich — the member of the Board of Directors**

Year of birth 1953.

Educational background: higher education — Moscow State Pedagogical Institute.

Information on the primary employment (name of the legal entity, position): the Deputy General Director for Communications and Interaction with the Public Authorities of JSC Severstal Management.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.
Elkin Roman Viktorovich — the member of the Board of Directors

Year of birth 1979.

Educational background: higher education — Vologda State Technical University.

Information on the primary employment (name of the legal entity, position):
the Head of the Corporate Control Department of JSC Severgroup.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

Lukin Vladimir Andreevich — the member of the Board of Directors

Year of birth 1978.

Educational background: higher education — Lomonosov Moscow State University.

Information on the primary employment (name of the legal entity, position):
the Deputy General Director for Legal Affairs of JSC Severstal Management.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

Sunyaev Yuri Igorevich — the member of the Board of Directors

Year of birth 1978.

Educational background: higher education — Cherepovets State University, majoring in «management and informatics in technical systems»; MBA.

Information on the primary employment (name of the legal entity, position):
the Deputy Director General-Sales Director of PJSC “Power machines”.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

Philippov Roman Petrovich — the member of the Board of Directors

Year of birth 1974.

Educational background: higher education — St. Petersburg State Technical University; has an MBA degree (Newcastle), passed the Global Leadership Program.

Information on the primary employment (name of the legal entity, position):
the General Director of PJSC “Power machines”.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.
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<thead>
<tr>
<th>Chechnev Vadim Konstantinovich — Member of the Board of Directors</th>
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<tbody>
<tr>
<td>Year of birth 1970.</td>
</tr>
<tr>
<td>Educational background: higher education — Cherepovets State University; Moscow International Higher Business School MIRBIS (Institute); London Metropolitan University, MBA diploma.</td>
</tr>
<tr>
<td>Information on the primary employment (name of the legal entity, position): the Director for Economics and Finance of PJSC “Power machines”.</td>
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<tr>
<td>The share of participation of the member of the Board of Directors in the Company's authorized capital, %: 0.</td>
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<tr>
<td>The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.</td>
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<tr>
<th>The composition of the Board of Directors elected by decisions of the general meetings of shareholders of the Company on April 14, 2017 and June 23, 2017:</th>
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<tbody>
<tr>
<td>Mordashov Alexey Alexandrovich — the Chairman of the Board of Directors</td>
</tr>
<tr>
<td>Year of birth 1965.</td>
</tr>
<tr>
<td>Educational background: higher education — Leningrad Institute of Engineering and Economics; Business School of the University of Northumbria (Newcastle, United Kingdom), MBA Diploma.</td>
</tr>
<tr>
<td>Information on the primary employment (name of the legal entity, position): the General Director of Severgroup LLC.</td>
</tr>
<tr>
<td>The share of participation of the member of the Board of Directors in the Company's authorized capital, %: 0,0000000114825.</td>
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<tr>
<td>The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0,0000000114825.</td>
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<tr>
<th>Vasilkov Roman Vladimirovich — the member of the Board of Directors</th>
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<tbody>
<tr>
<td>Year of birth 1979.</td>
</tr>
<tr>
<td>Educational background: higher education — Military Space Engineering Academy named after A.F. Mozhaysky; Institute of Management and Information Technologies (branch of Peter the Great St.Petersburg Polytechnic University).</td>
</tr>
<tr>
<td>Information on the primary employment (name of the legal entity, position): the Head of the Corporate Control Department of LLC Severgroup.</td>
</tr>
<tr>
<td>The share of participation of the member of the Board of Directors in the Company's authorized capital, %: 0.</td>
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<tr>
<td>The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.</td>
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<thead>
<tr>
<th>Egorov Aleksey Georgievich — the member of the Board of Directors</th>
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<tbody>
<tr>
<td>Year of birth 1953.</td>
</tr>
<tr>
<td>Educational background: higher education — Moscow State Pedagogical Institute.</td>
</tr>
<tr>
<td>Information on the primary employment (name of the legal entity, position): the Deputy General Director for Communications and Interaction with the Public Authorities of JSC Severstal Management.</td>
</tr>
<tr>
<td>Name</td>
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<td>------------------------------------------</td>
</tr>
<tr>
<td>Laptev Andrey Alexandrovich — the member of the Board of Directors</td>
</tr>
<tr>
<td>Lukin Vladimir Andreevich — the member of the Board of Directors</td>
</tr>
<tr>
<td>Philippov Roman Petrovich — the member of the Board of Directors</td>
</tr>
</tbody>
</table>
The composition of the Board of Directors elected by the resolution of the General Meeting of Shareholders of the Company on December 08, 2017:

**Mordashov Alexey Alexandrovich — the Chairman of the Board of Directors**

Year of birth 1965.

Educational background: higher education — Leningrad Institute of Engineering and Economics; Business School of the University of Northumbria (Newcastle, United Kingdom), MBA Diploma.

Information on the primary employment (name of the legal entity, position):
the General Director of Severgroup LLC.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.0000000114825.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.0000000114825.

**Vasilkov Roman Vladimirovich — the member of the Board of Directors**

Year of birth 1979.

Educational background: higher education — Military Space Engineering Academy named after A.F. Mozhaysky; Institute of Management and Information Technologies (branch of Peter the Great St.Petersburg Polytechnic University).

Information on the primary employment (name of the legal entity, position):
the Head of the Corporate Control Department of LLC Severgroup.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

**Egorov Aleksey Georgievich — the member of the Board of Directors**

Year of birth 1953.

Educational background: higher education — Moscow State Pedagogical Institute.

Information on the primary employment (name of the legal entity, position): the Deputy General Director for Communications and Interaction with the Public Authorities of JSC Severstal Management.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

**Laptev Andrey Alexandrovich — the member of the Board of Directors**

Year of birth 1981.

Educational background: higher education — Lomonosov Moscow State University; Cambridge University, majoring in Economics; London School of Economics, majoring in Management; has a degree of Doctor of Business Administration (Cranfield University).

Information on the primary employment (name of the legal entity, position):
the Head of Corporate Strategy Department, JSC Severstal Management.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

Lukin Vladimir Andreevich — the member of the Board of Directors

Year of birth 1978.

Educational background: higher education — Lomonosov Moscow State University.

Information on the primary employment (name of the legal entity, position):
the First Deputy General Director of Severgroup LLC.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

Petrenia Iurii Kirilovich — the member of the Board of Directors

Year of birth 1951.

Educational background: higher education — Leningrad Polytechnic Institute named after M.I. Kalinin.

Information on the primary employment (name of the legal entity, position):
the General Director of PJSC “Power machines”.

The share of participation of the member of the Board of Directors in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by the member of the Board of Directors, %: 0.

Transactions with the Company’s shares made by the members of the Board of Directors during the reporting year:

The members of the Company’s Board of Directors made no transactions for the acquisition and/or transfer of the Company’s ordinary registered shares in 2017.

Activities of the Board of Directors in 2017

17 meetings of the Board of Directors (4 — in person, 13 — in absentia) were held in 2017.

Issues addressed to the Board of Directors included the Company’s results, issues related to convening general meetings of shareholders, participation, changing the share (number of shares) and ceasing the Company’s participation in other companies, establishing a branch and opening a representative office, increasing the authorized capital of the Company’s subsidiary, election of the General Director, as well as issues of approval of transactions.

Information on the agenda of meetings of the Board of Directors, as well as on individual decisions adopted by the Board of Directors, was disclosed by the Company in the form of corporate action notices.
CORPORATE SECRETARY

The Corporate Secretary ensures that the management bodies and officials of the Company comply with the corporate governance procedures, the requirements of the current legislation, the Charter and other internal documents of the Company, support and development of Company’s corporate governance standards in accordance with the requirements of legislation and best corporate governance practices.

In accordance with the Charter and the Regulation on the Corporate Secretary of the Company, the Corporate Secretary is simultaneously the Secretary of the Board of Directors, the Secretary of the Committees of the Board of Directors and acts as the Secretary at the General Meeting of Shareholders of the Company.

The scope of activity of the Corporate Secretary includes:

- ensuring the activities of the Board of Directors;
- preparation and holding of General Meetings of Shareholders;
- consulting on corporate governance issues;
- preparation of materials on information disclosure in accordance with the requirements of the Russian legislation (including analysis, transfer and storage of information);
- other functions assigned to the competence of the Corporate Secretary in accordance with the Charter and the Regulation on the Corporate Secretary.

Stanislav Borisovich Izmailsky was elected Corporate Secretary of the Company On October 31, 2014.

Year of birth 1980.

Educational background: higher education — St. Petersburg State University of Aerospace Instrumentation, Faculty of Law

Information on the primary employment (name of the legal entity, position):
the Head of Corporate Legal under Legal Directorate of PJSC “Power machines”

The share of participation in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares, %: 0.

During the reporting year, the Corporate Secretary made no transactions for the acquisition and / or transfer of the Company’s ordinary registered shares.
Management of the Company’s day-to-day operations is carried out by the sole executive body — the General Director.

The General Director is elected by the Board of Directors of the Company. The General Director has the right to represent the interests of the Company to all individuals and legal entities, including governmental authorities and their associations, to hire and dismiss the Company’s employees, issue orders, approve the Company’s staff, execute transactions on behalf of the Company and other actions that do not contravene the current legislation of the Russian Federation, the Charter and internal documents of the Company, as well as the contract concluded between him and the Company.

Information on the persons holding the position of the General Director of the Company in 2017:

<table>
<thead>
<tr>
<th>Name</th>
<th>Year of birth</th>
<th>Educational background</th>
<th>The share of participation in the Company’s authorized capital, %</th>
<th>The share of the Company’s ordinary registered shares, %</th>
<th>Date of taking office</th>
<th>Date of termination of powers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippov Roman Petrovich</td>
<td>1974</td>
<td>higher education — St. Petersburg State Technical University; has an MBA degree (Newcastle), passed the Global Leadership Program.</td>
<td>0</td>
<td>0</td>
<td>10.04.2015</td>
<td>19.07.2017</td>
</tr>
<tr>
<td>Petrenia Iurii Kirilovich</td>
<td>1951</td>
<td>higher education — Leningrad Polytechnic Institute named after M.I. Kalinin.</td>
<td>0</td>
<td>0</td>
<td>20.07.2017</td>
<td></td>
</tr>
</tbody>
</table>

Philippov Roman Petrovich made no transactions for the acquisition and / or transfer of the Company’s ordinary registered shares in 2017.

Petrenia Iurii Kirilovich made no transactions for the acquisition and / or transfer of the Company’s ordinary registered shares in 2017.
AUTHORIZED CAPITAL

The authorized capital of PJSC “Power machines” is 87,089,387.08 rubles as of December 31, 2017. The authorized capital of the Company is divided into 8,708,938,708 ordinary registered shares with a nominal value of 0.01 rubles each.

As of December 31, 2017, the company HIGHSTAT LIMITED owns 8,708,938,707 ordinary registered shares of PJSC “Power machines”. The ultimate beneficiary of HIGHSTAT LIMITED is Alexey Mordashov. The ordinary registered shares of PJSC “Power machines” were not listed by the organizers of trading on the securities market in 2017.

REPORT ON PAYMENT OF DECLARED (ACCRUED) DIVIDENDS ON THE COMPANY’S SHARES

PJSC “Power machines” guarantees and recognizes the right to receive dividends as one of the most important rights of shareholders.

When issuing recommendations on the payment of declared dividends, the Board of Directors is governed by the current legislation and the Company’s Charter.

In 2017, no decision was made to pay dividends, therefore dividends on the Company’s ordinary registered shares were not accrued and were not paid for any of the reporting periods.

THE COMPANY’S POLICY IN THE FIELD OF REMUNERATION AND (OR) COMPENSATION OF EXPENSES

The Company’s remuneration policy is aimed at ensuring a fair remuneration for employees with a view of their qualification and responsibility, not lower than the average remuneration for the industrial sector and the region of St. Petersburg.

The collective agreement provides for the possibility of an annual increase in wages taking into account inflation and based on budgetary indicators.

The Regulation on Remuneration effective in the Company allows to stimulate employees in the form of bonuses for performance results.
INFORMATION ON THE AMOUNT OF REMUNERATION AND COMPENSATION OF EXPENSES OF THE COMPANY’S MANAGEMENT BODIES

The amount of remuneration to members of the Board of Directors according to year-end results is determined by the decision of the General Meeting of Shareholders of the Company.

During the reporting period, no decisions were made on remuneration for participation in the work, on payment of compensation costs related to the exercise of the functions of the members of the Board of Directors.

Remuneration to the General Director of the Company is paid in the amount and on terms determined by the employment contract approved by the Board of Directors of the Company.

Information on remuneration and reimbursement of expenses of the members of the Board of Directors:

Unit of measurement: thousand rubles

<table>
<thead>
<tr>
<th>Parameter name</th>
<th>for 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for participation in the work of the management body</td>
<td>0</td>
</tr>
<tr>
<td>Salary</td>
<td>49,932</td>
</tr>
<tr>
<td>Bonuses</td>
<td>41,853</td>
</tr>
<tr>
<td>Commission</td>
<td>0</td>
</tr>
<tr>
<td>Benefits</td>
<td>0</td>
</tr>
<tr>
<td>Compensation of expenses</td>
<td>0</td>
</tr>
<tr>
<td>Other types of remunerations</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>91,785</strong></td>
</tr>
</tbody>
</table>

THE COMPANY’S AUDIT COMMISSION

The Company’s Audit Commission acts in accordance with the requirements of the laws of the Russian Federation, the Charter and the Regulations on the Audit Commission, and consists of three members elected by the General Meeting of Shareholders of the Company.

The Audit Commission is the body that carries out control over all areas of the Company’s financial and economic activities, its branches and representative offices for compliance with the current legislation, the Charter, regulations, instructions, orders and directions of the Company’s management bodies.

The work of the Audit Commission is aimed at ensuring investors’ confidence in the Company and its management bodies. The main purpose of the work of the Audit Commission is to protect the Company’s assets, increase profitability and competitiveness.

The members of the Company’s Audit Commission, elected by the decisions of the General Meetings of Shareholders on June 28, 2016 and June 23, 2017:

1. Kutimskaya Maria Markovna
2. Montvidas Alexandr Edwardo
3. Khusnullina Lyudmila Nikolaevna (Chairman)
Information on the members of the Company’s Audit Commission as of December 31, 2017:

**Kutimskaya Maria Markovna**

Year of birth 1978.

Educational background: higher education — St. Petersburg State Engineering and Economics Academy

Information on the primary employment (name of the legal entity, position): the Senior Manager of the Internal Audit Department of PJSC “Power machines”

The share of participation of a member of the Audit Commission in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by a member of the Audit Commission, %: 0.

**Montvidas Alexandr Edwardo**

Year of birth 1976.

Educational background: higher education — Cherepovets State University; St. Petersburg State Polytechnic University; SI “Higher School of Economics”, “Higher School of Management”

Information on the primary employment (name of the legal entity, position):
the Senior Manager of the Corporate Control Department of Severgroup LLC

The share of participation of a member of the Audit Commission in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by a member of the Audit Commission, %: 0.

**Khusnullina Ludmila Nikolaevna**


Educational background: higher education — St. Petersburg State Mining Institute named after G.V. Plekhanov; Moscow Institute of Economics and Management in Industry

Information on the primary employment (name of the legal entity, position):
the Head of the Internal Audit Department of PJSC “Power machines”

The share of participation of a member of the Audit Commission in the Company’s authorized capital, %: 0.

The share of the Company’s ordinary registered shares held by a member of the Audit Commission, %: 0.

During the reporting year, the members of the Audit Commission made no transactions for the acquisition and / or transfer of the Company’s ordinary registered shares.
The purpose of creation of the Audit and Risk Committee of the Board of Directors of the Company is to improve the performance of the Board of Directors in open communication with the external auditors, the Audit Commission, internal audit, divisions responsible for preparing the Company’s financial statements.

The activities of the Audit and Risk Committee of the Company’s Board of Directors are governed by the Regulations on the Audit and Risk Committee of the Company’s Board of Directors.

The composition of the Audit and Risk Committee of the Board of Directors effective in 2017, elected by the Board of Directors:

as of 27/07/2016
- Elkin R.V.
- Lavrov N.V.
- Fedoseev S.N. (Chairman from 04/10/2016)

as of 12/05/2017
- Vasilkov R.V.
- Lavrov N.V.
- Fedoseev S.N. (Chairman)

as of 13/07/2017
- Vasilkov R.V.
- Lavrov N.V.
- Fedoseev S.N. (Chairman)

The Audit and Risk Committee of the Board of Directors met five times in 2017. Within the Committee’s competence, it reviewed and made recommendations to the Board of Directors of the Company on the following issues:
- risks related to the Company’s activities;
- the Company’s management and financial statements;
- external audit;
- internal audit;
- internal control procedures.
AUDITOR

The auditor of PJSC “Power machines” is JSC KPMG - a highly professional consultant, whose reputation has proven to be impeccable.

JSC KPMG is a member of the Self-regulated organization of auditors «Russian Union of auditors» (Association), as well as the following professional associations: The Russian Union of Industrialists and Entrepreneurs, the National Council on Corporate Governance, the Russian Venture Capital Association, the Association of European Business, the American Chamber of Commerce, the Russo-British Chamber of Commerce, U.S.-Russia Business Council, Canada Eurasia Russia Business Association, the International Business Congress, the Japanese business club, NAIMA — National Alternative Investment Management Association, the Franco-Russian Chamber of Commerce, the Russian-German Chamber of Commerce, the Association of Industrial Parks of Russia, the National Organization for Financial Accounting and Reporting Standards, Association «Russian Automobile Dealers» (ROAD), Organization of the international community of Nizhny Novgorod region.

JSC KPMG audited the financial statements of the Company for 2017, prepared in accordance with Russian and international accounting standards.

REGISTRAR

The register of shareholders of PJSC “Power machines” is maintained by PARTNER LLC, an independent professional registrar.

Registrar’s location 22, Pobedy Avenue, Cherepovets, the Vologda region, Russia, 162606.

Contact number: (8202) 51-72-04.

St. Petersburg branch of LLC PARTNER.
The location of the St. Petersburg branch:
16, Basseynaya street, Saint Petersburg, Russia, 196070.
Contact number: (812) 388-98-53.
APPENDIX

65 RISK FACTORS

69 INFORMATION (REPORT) ON THE COMPANY’S COMPLIANCE with the principles and recommendations of the Corporate Governance Code

96 USE OF ENERGY RESOURCES

97 THE LIST OF MAJOR TRANSACTIONS AND TRANSACTIONS which are subject to the Company’s Charter approval of major transactions in 2017

97 LIST OF RELATED-PARTY transactions in 2017

102 GLOSSARY
RISK FACTORS

Commercial Risks

Risk factors: Intensification of competition
Impact: High
Countermeasures, comments:
- Customer-oriented approach, including the use of a value-in-use approach and a program to improve customer satisfaction when preparing a technical and commercial proposal.
- Strengthening the competitiveness of products by improving the quality of products and services and optimizing the price formation process, reducing costs.
- Diversification of the product range (including equipment for various types of generation).
- Active work with customers to promote products, including on issues of modernization and renovation.
- Increase in the volume of integrated supply of power equipment of own production (including boiler and transformer equipment) with simultaneous expansion of the service line.
- Maintaining the leading position in the domestic market and active work in the external market. On the external market, the Company’s efforts are focused on the countries of Latin America, the Middle East, South and South-East Asia, which have the greatest market potential, both in terms of the perspective of development and marketing of the Company’s product line.
- Partnerships with local and foreign regional suppliers for joint participation in projects involving the supply of equipment and services not included in the Company’s range.

Risk factors: Adjustment of investment programs of potential customers towards freezing of projects and extended schedules
Impact: High
Countermeasures, comments:
- Diversification of foreign markets (active work in the markets of near and far abroad countries).
- Active development of the service direction with the transition to long-term service practice.
- Diversification of the product range (including equipment for various types of generation).
- Development of partnerships with regional suppliers to participate in projects that include supplies of equipment and services not included in the Company's range.

Risk factors: Increase in the Company's production costs
Impact: High
Countermeasures, comments:
- Optimization of production cycles, optimization of procurement of materials and components for production, reduction of overhead costs.
- Development of partnerships with external for the purpose of placing orders for the production of blanks or parts of equipment.
- Standardization of the product line in order to reduce costs and production times.
- Focus on import substitution.

Risk factors: The appearance of new power equipment on the market, capable of competing with equipment produced by the Company in both economic and technical parameters
Impact: Moderate
Countermeasures, comments:
- Expansion of the range of products, including the development of new equipment that can meet all customer requirements.
- Improvement of technical and economic performance of existing equipment, including the expansion of modernization packages of own equipment.

The main risk factors that can significantly affect the operational activities, sales, profits, assets, liquidity and capital resources of PJSC “Power machines”. All estimates and forecasts should be considered in association with the risks presented in this annual report.
• Development of modernization packages, including for equipment of competitors, as well as long-term after-sales service programs.

**Risk factors:** Change in prices for materials and raw materials used to produce power equipment  
**Impact:** High

**Countermeasures, comments:**  
• The use of the price escalation mechanism in long-term contracts.  
• Selection of product, service and material suppliers on a competitive basis, including the expansion of the competitive environment by engaging more product suppliers.  
• Planning and reservation of metal products for long-cycle production, optimization of procurement activities.

**Legal risks**

**Risk factors:** Amendments to tax legislation  
**Impact:** Moderate

**Countermeasures, comments:**  
• The tax legislation is the most mobile branch of law, the provisions of which are subject to frequent amendments, additions and clarifications. Monitoring of changes in tax legislation and related state policy, as well as review of the draft amendments allow the Company to minimize risks and potential negative consequences.

**Risk factors:** Amendments to the rules of customs control and duties  
**Impact:** Moderate in the foreign market

**Countermeasures, comments:**  
• Due to the fact that part of the Company’s sales markets, as well as some suppliers are located outside the Customs Union, changes in the rules of customs control and customs duties can lead to an increase in the deadlines for fulfilling obligations to customers, as well as increasing the cost of certain products, works or services. In order to minimize risks, the Company monitors the amendments to the customs legislation and takes into account possible risks when agreeing on performance terms and the prices of products, works or services.

**Risk factors:** Amendments to judicial practice on issues related to the Company’s activities (including licensing issues), which may adversely affect the results of its activities and the results of disputes with third parties  
**Impact:** Insignificant

**Countermeasures, comments:**  
• Amendments to judicial practice with an adverse effect to the Company are assessed as insignificant. The relevant departments of the Company regularly monitor court practice to minimize this risk.

**Technical risks**

**Risk factors:** Toughening of customer requirements for technical and economic performance of power equipment  
**Impact:** Moderate

**Countermeasures, comments:**  
• Upgrade the scientific and technical skills of engineering personnel in order to create modern and competitive equipment.  
• Conducting applied and fundamental scientific research.  
• Development of design and engineering departments.  
• Work with universities and research institutes to engage highly skilled and promising specialists.
**Risk factors:** Risks related to the use of new technical solutions and new materials in the design of power equipment  
**Impact:** Moderate

**Countermeasures, comments:**  
- Upgrade the scientific and technical skills of engineering personnel in order to create modern and competitive equipment.  
- Conducting applied and fundamental scientific research.  
- Development of design and engineering departments.  
- Work with universities and research institutes to engage highly skilled and promising specialists.

**Risk factors:** Risks related to the expansion of the product range (introduction of low-speed technology for steam turbine equipment, development of new standard sizes for last stage blades of the marginal length, etc.)  
**Impact:** Moderate

**Countermeasures, comments:**  
- Workout of new elements on the brassboard.  
- Introduction of new elements protected by patents.  
- Performance analysis of the similar developed equipment based on marketing research of working conditions of both domestic and imported equipment.

**Risk factors:** Accidents and emergencies involving equipment produced or supplied by the Company  
**Impact:** Moderate

**Countermeasures, comments:**  
- Quality control during the manufacturing process, including using modern methods of nondestructive testing.  
- Improving the production engineering.  
- Implementation of modern systems of automatic control, monitoring and diagnostics during operation of manufactured equipment.

**Financial risks**

**Risk factors:** Currency risk (the risk of losses on export and import contracts as a result of deviations in the exchange rates of the contract price from the exchange rates of payment)  
**Impact:** Moderate

**Countermeasures, comments:**  
- Consideration of exchange rate risk in establishing the contract price.  
- The choice of the contract currency with a favorable rate change forecast for the Company.  
- Inclusion of a currency clause or price escalation in contracts and agreements with a significant import component in the cost.  
- Taking measures to reduce the cost of commercial products.  
- Diversification of the Company’s order portfolio structure.  
- Matching the revenue and expenditure parts of the payment budget in terms of main currencies.  
- Conclusion of forex transactions with banks at the most profitable rates on a competitive basis.

**Risk factors:** Credit risk (risk of loss as a result of worsening financial situation of customers, banks, guarantors)  
**Impact:** Moderate

**Countermeasures, comments:**  
- Introduction procedures for assessing the solvency and reputational risks of business partners.  
- Competitive selection of business partners.  
- Rating of the sovereign obligations of the guarantor country (if the counterparty provides a sovereign guarantee).  
- Implementation of the Company’s payment policy: conclusion of transactions with customers with settlement conditions, assuming maximum advance payment and delivery of products after payment.
• Active use of tools that increase the reliability of contract settlements (a letter of credit opened or confirmed by a reliable bank, bank guarantees, sureties).
• Diversification of the Company’s order portfolio by regions of the world (various regions were differently affected by the global financial crisis and are restoring at different rates), focus on increasing the share of exports in revenue.

**Risk factors:** Interest rate risk (risk of decrease in profit as a result of adverse changes in interest rates on financial transactions)

**Impact:** Moderate

**Countermeasures, comments:**
• Forecasting changes in financial market conditions.
• Selection of fixed-income financial instruments.
• Conservative policy of external borrowing.

**Risk factors:** The risk of negative changes in the Company’s liquidity

**Impact:** Moderate

**Countermeasures, comments:**
• Taking measures to reduce the cost of own production, increase the resale efficiency. Establishment and strict observance of the target standards for the profitability of transactions, differentiated by the subject of the transaction (equipment supply, modernization, services).
• Optimization of settlement terms with customers:
  – increase in advance payments amounts;
  – the coordination of payment schedule most closely approximate to the schedule of production costs and settlements with sub-suppliers.
• Optimization of settlement terms with suppliers:
  – decrease in advance payments amounts;
  – maximum payment against performance.
• Monitoring of accounts receivable and payable.
• Accelerating the turnover of the Company’s assets.
• Diversification policy (currency, terms, banks) of the placement of temporarily free cash.
INFORMATION (REPORT) ON THE COMPANY’S COMPLIANCE\(^6\) WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

The Company has not officially approved the Corporate Governance Code. However, PJSC “Power machines” provides shareholders with all opportunities to participate in the management of the Company and to learn information on the Company’s activities in accordance with the Federal Laws «On Joint Stock Companies», «On the Securities Market» and regulatory enactments of the Bank of Russia.

The main principle of the Company’s building of relationships with shareholders and investors is a reasonable balance of interests as an economic entity and as a joint-stock company interested in protecting the rights and legitimate interests of its shareholders.

The Company is guided by the following principles of the Corporate Governance Code, approved by the Bank of Russia:

- an equal and fair attitude towards all shareholders upon implementation of their right to participate in the management of the Company;
- an equal and fair opportunity for shareholders to participate in the Company’s profits through the receipt of dividends;
- reliable and effective ways of recording the rights of shareholders for shares, as well as the possibility of free and unburdensome transfer of their shares;
- shareholders are entitled to receive regular well-timed full and reliable information on the activities of PJSC “Power machines” in accordance with the requirements of the legislation of the Russian Federation;
- the Company controls the use of confidential and proprietary information.

Description of the methods used by PJSC “Power machines” conducted to assess the compliance with corporate governance principles stated in the Corporate Governance Code:

The assessment of the Company’s compliance with the principles of corporate governance stated in the Corporate Governance Code was conducted in accordance with the form recommended by the Bank of Russia for compliance with the principles and recommendations of the Corporate Governance Code (annex to the Bank of Russia Letter No.IN-06-52 / 8 of February 17, 2016).

The assessment was carried out by analyzing and comparing the Charter, internal documents of the Company, as well as other available and accessible information, with the principles and recommendations of the Corporate Governance Code.

\(^6\) Ordinary registered shares of PJSC “Power machines” are not admitted to on-exchange trading.
**Principles of corporate governance**

1.1 The Company must ensure equal and fair attitude towards all shareholders in the exercise of their right to participate in the management of the Company

1.1.1 The Company creates the most favorable conditions for shareholders to participate in the general meeting, the conditions for developing a justified position on the agenda of the general meeting, coordinating their actions, as well as the opportunity to express their opinion on the issues under consideration.

**Criteria for assessing compliance with the principle of corporate governance**

1. The internal document of the Company approved by the general meeting of shareholders and regulating the procedure for holding a general meeting is publicly available.
2. The Company provides an accessible way of communicating with the Company, such as a hotline, e-mail or forum on the Internet, allowing shareholders to express their opinion and forward questions regarding the agenda in preparation for the general meeting. These actions were undertaken by the Company on the eve of each general meeting that took place during the reporting period.

**The status of compliance with the principle of corporate governance**

<table>
<thead>
<tr>
<th>Observed</th>
<th>Partially observed</th>
<th>Not observed</th>
</tr>
</thead>
</table>

1.1.2 The procedure for notification of a general meeting and submitting materials to a general meeting gives shareholders the opportunity to properly prepare for participation in it.

**Criteria for assessing compliance with the principle of corporate governance**

1. The notification of the shareholders’ general meeting is posted (published) on the website on the Internet at least 30 days before the date of the general meeting.
2. In the notification on holding the meeting, the place of the meeting and the documents necessary for admission to the premises are indicated.
3. Shareholders were provided with access to information about who proposed the agenda and who nominated candidates for the Board of Directors and the Audit Commission of the Company.

**The status of compliance with the principle of corporate governance**

<table>
<thead>
<tr>
<th>Observed</th>
<th>Partially observed</th>
<th>Not observed</th>
</tr>
</thead>
</table>

**Explanations of deviation from criteria for assessing compliance with the principle of corporate governance**

Partially the criterion 1 is not observed. According to the Charter of the Company (edition No. 20), a notification of the general meeting of shareholders shall be sent to each person specified in the list of persons entitled to participate in the general meeting of shareholders or posted on the Company’s website at the following address: www.power-m.ru not less than 20 days before the date of the general meeting.

1.1.3 During the preparation and holding of the general meeting, shareholders had the opportunity to receive unhindered and well-timed information about the meeting and materials on it, to ask questions to the executive bodies and members of the Board of Directors of the Company, to communicate with each other.

**Criteria for assessing compliance with the principle of corporate governance**

1. During the reporting period, the shareholders were given the opportunity to ask questions to members of the executive bodies and members of the Board of Directors of the Company on the eve and during the annual general meeting.
2. The position of the Board of Directors (including dissenting opinions) on each item of the agenda of general meetings held during the reporting period was included in the materials for the general meeting of shareholders.
3. The Company provided the eligible shareholders access to the list of persons entitled to participate in the general meeting, starting from the date of its receipt by the company, in all cases of holding general meetings in the reporting period.

**The status of compliance with the principle of corporate governance**

<table>
<thead>
<tr>
<th>Observed</th>
<th>Partially observed</th>
<th>Not observed</th>
</tr>
</thead>
</table>
Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Criterion 2 is not observed.
There were no special opinions (positions) of the members of the Board of Directors on each issue of the agenda of general meetings held in 2017, so they are not included in the materials for the general meeting of shareholders.

1.1.4 The implementation of the shareholder’s right to demand convocation of a general meeting, nominate candidates to the management bodies and make proposals for inclusion in the agenda of the general meeting was not accompanied by unjustified difficulties.

Criteria for assessing compliance with the principle of corporate governance

1. In the reporting period, the shareholders had the opportunity to submit proposals for inclusion in the annual general meeting agenda within at least 60 days after the end of the respective calendar year.
2. During the reporting period, the Company did not refuse to accept proposals to the agenda or nominees for the Company’s bodies due to misprints and other insignificant shortcomings in the shareholder’s proposal.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

1.1.5 Each shareholder had the opportunity to freely exercise the right to vote in the simplest and most convenient way for him.

Criteria for assessing compliance with the principle of corporate governance

1. The internal document (internal policy) of the Company contains provisions according to which each member of the general meeting can request a copy of the ballot filled out by him, certified by the counting commission, before the completion of the relevant meeting.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The Regulations on the General Meeting of Shareholders of the Company do not contain such an opportunity.
The general meetings of the shareholders of the Company have never faced such a situation in practice.
Since the Civil Code of the Russian Federation requires to record the information on persons who voted against in the minutes — by the demand of the latter, in the case of a shareholder’s request, a copy of the ballot filled out by them, certified by the counting commission (registrar) will be provided.

1.1.6 The procedure established by the Company for the conduct of the general meeting provides an equal opportunity for all persons present at the meeting to express their opinion and ask their questions.

Criteria for assessing compliance with the principle of corporate governance

1. When holding the general meetings of shareholders in the form of a meeting (joint attendance of shareholders) during the reporting period, sufficient time was provided for reports on the agenda items and for discussion of these items.
2. Candidates to the management and control bodies of the Company were available for answering the questions of shareholders at the meeting at which their nominees were put to the vote.
3. The Board of Directors, when making decisions related to the preparation and conduct of general meetings of shareholders, considered the issue of using telecommunications to provide remote access to shareholders for participation in general meetings in the reporting period.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Criterion 3 is not observed.
The Board of Directors, while making decisions related to the preparation and conduct of the general
meetings of shareholders, has not yet considered the use of telecommunications to provide remote
access to shareholders for participation in general meetings.
In its turn, the Charter of the Company (edition No. 20) provides for the possibility of using information
and communication technologies that allow for the possibility of remote participation in the general
meeting of shareholders.

1.2 The shareholders are given an equal and fair opportunity to participate in the Company’s profits
through the receipt of dividends

1.2.1 The Company has developed and implemented a transparent and clear mechanism for determining
the amount of dividends and their payment.

Criteria for assessing compliance with the principle of corporate governance
1. The dividend policy was developed, approved by the Board of Directors and disclosed in the Company.
2. If the Company’s dividend policy uses the Company’s reporting indicators to determine the amount
of dividends, then the relevant provisions of the dividend policy take into account consolidated financial
statements.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
There is no document in the Company that determines the dividend policy. The Company will consider the
need to approve the dividend policy after it is understood that the Company has a potential opportunity
to pay dividends.

1.2.2 The Company makes no decision on dividend payment if such a decision, while not formally
breaching the restrictions established by the legislation, is not financially viable and may lead to
misperception of the Company activities.

Criteria for assessing compliance with the principle of corporate governance
1. The dividend policy of the Company clearly indicates the financial / economic circumstances in which
the Company should not pay dividends.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
There is no document in the Company that determines the dividend policy. The Company will consider the
need to approve the dividend policy after it is understood that the Company has a potential opportunity
to pay dividends.

1.2.3 The Company does not allow deterioration of dividend rights of existing shareholders.

Criteria for assessing compliance with the principle of corporate governance
1. In the reporting period, the Company did not take any actions leading to a deterioration in the dividend
rights of existing shareholders.

The status of compliance with the principle of corporate governance
☒ observed
☐ partially observed
☐ not observed

1.2.4 The Company seeks to prevent shareholders from using other ways to obtain profit (revenue) at the
expense of the Company, besides dividends and liquidation value.

Criteria for assessing compliance with the principle of corporate governance
1. In order to exclude the use by the shareholders of other ways to obtain profit (revenue) at the expense
of the Company, besides dividends and liquidation value, the internal documents of the Company establish
control mechanisms that ensure the timely identification and procedure for approving transactions with the parties affiliated (related) with significant shareholders (persons having the right to dispose of votes falling on voting shares), in cases where the law does not formally recognize such transactions as interested party transactions.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The deviation from compliance with this recommendation is caused by the opinion of the Company that the transactions mentioned in this recommendation are covered by the control mechanisms provided by the current legislation.

1.3 The system and practice of corporate governance ensure equal conditions for all shareholders — holders of shares of same category (type), including minority (small) shareholders and foreign shareholders, and equal attitude of the Company

1.3.1 The Company has created conditions for fair attitude of management bodies and supervisory bodies of the Company to each shareholder, including conditions ensuring that principal shareholders do not abuse against minority shareholders.

Criteria for assessing compliance with the principle of corporate governance

1. During the reporting period, the procedures for managing potential conflicts of interest of significant shareholders are effective, and conflicts of the shareholders, if any, have been given due attention by the Board of Directors.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

1.3.2 The Company does not take any actions that lead or can lead to an artificial reallocation of corporate control.

Criteria for assessing compliance with the principle of corporate governance

1. Quasi-treasury shares are absent or did not participate in voting during the reporting period.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

1.4 The shareholders are provided with reliable and effective ways of recording rights to shares, as well as the possibility of free and unburdensome transfer of their shares

1.4.1 The shareholders are provided with reliable and effective ways of recording rights to shares, as well as the possibility of free and unburdensome transfer of their shares.

Criteria for assessing compliance with the principle of corporate governance

1. The quality and reliability of the activities carried out by the registrar in maintaining the register of securities owners correspond to the needs of the Company and its shareholders.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed
2.1 The Board of Directors performs strategic management of the Company, determines the main principles and approaches to the organization of the risk management system and internal control in the Company, controls the activities of the executive bodies of the Company, and also implements other key functions

2.1.1 The Board of Directors is responsible for making decisions related to the appointment and dismissal of executive bodies, including by reason of improper performance of their duties. The Board of Directors also supervises that the executive bodies of the Company act in accordance with the approved development strategy and the main activities of the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The Board of Directors has the authority, stipulated in the Charter, to appoint, dismiss from the office and determine the terms of contracts with the members of the executive bodies.
2. The Board of Directors reviewed the report (reports) of the sole executive body and members of the collegial executive body on the implementation of the Company’s strategy.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Criterion 2 is not observed. The deviation from compliance with this recommendation is caused by the Company’s established practice: the report of the sole executive body on the implementation of the Company’s strategy is considered by the Board of Directors not as a separate issue but within the review of a preliminary approval of the Company’s annual report. The current control over the implementation of the Company’s strategy is exercised by the Chairman of the Board of Directors or other members of the Board of Directors by his order. The Company does not have a collegial executive body.

2.1.2 The Board of Directors sets the main objectives for the Company’s activities for the long term, evaluates and approves key performance indicators and the main business goals of the Company, evaluates and approves the strategy and business plans for the main types of the Company’s activities.

Criteria for assessing compliance with the principle of corporate governance

1. During the reporting period, the Board of Directors considered issues related to the implementation and actualization of the strategy, approval of the financial and economic plan (budget) of the Company, and consideration of criteria and indicators (including intermediate) of the implementation of the Company’s strategy and business plans.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The deviation from compliance with this recommendation is caused by the Company’s established practice: these issues are considered by the members of the Board of Directors at a joint meeting of the management of the Company, that is outside meetings of the Board of Directors, which facilitates more prompt management decisions.

2.1.3 The Board of Directors determines the principles and approaches to arrangement of the system of risk management and internal control in the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The Board of Directors has determined the principles and approaches to arrangement of the system of risk management and internal control in the Company.
2. The Board of Directors assessed the risk management system and internal control of the Company during the reporting period.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed
Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Criterion 2 is not observed.

The Board of Directors approved the Regulations on the Audit and Risks Committee of the Company’s Board of Directors and elected its members charged with control over the Company’s financial and business operations, including supervision of the status (effectiveness) of the systems for risk management, internal control and corporate governance of the Company. Information on the activities of the Audit and Risk Committee is published as a separate part of the annual report of the Company. During the reporting period, the Board of Directors did not assess the Company’s risk management and internal control system. This is related to the lack of complaints from the management bodies of the Company to the work of the departments responsible for the risk management system and internal control (internal audit department). In addition, the internal documents of the Company do not specify the periodicity for said assessment.

2.1.4 The Board of Directors determines the Company’s policy on remuneration and (or) reimbursement of expenses (compensation) to members of the Board of Directors, executive bodies and other key management personnel of the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The company has developed and implemented a policy (policies) approved by the Board of Directors on remuneration and reimbursement of expenses (compensation) to members of the Board of Directors, executive bodies of the company and other key management personnel of the company.

2. During the reporting period, issues related to this policy (policies) were considered at the meetings of the Board of Directors.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The Company does not have a separate document that regulates the policy of remuneration and reimbursement of expenses (compensation) of members of the Board of Directors, the General Director of the Company and key management personnel of the Company. The principles of remuneration of members of the Board of Directors are prescribed in the Regulations on the Board of Directors of the Company. The Company has individual labor contracts with the key managers, which stipulate the procedure of remuneration and reimbursement of the employee’s expenses (compensations).

2.1.5 The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts between the Company’s bodies, shareholders and employees of the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts.

2. The Company has established a system for identifying transactions related to a conflict of interest and a system of measures aimed at resolving such conflicts.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

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 information disclosure, and the unhindered access of shareholders to the documents of the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The Board of Directors approved the Provisions on information policy.

2. The Company determined the persons responsible for the implementation of the information policy.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed
2.1.7 The Board of Directors exercises control over the Company’s practice of corporate governance and plays a key role in the significant corporate events of the Company.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the Board of Directors considered the issue of corporate governance practices in the Company.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is due to the fact that, in accordance with the Company’s Charter, the competence of the Board of Directors does not include this issue, therefore, it was not considered at meetings of the Board of Directors in 2017.

2.2 The Board of Directors is reporting to the shareholders of the Company

2.2.1 Information on the work of the Board of Directors is disclosed and provided to shareholders.

Criteria for assessing compliance with the principle of corporate governance
1. The annual report of the Company for the reporting period includes information on attendance of meetings of the Board of Directors and committees by individual directors.
2. The annual report contains information on the main assessment results of the work of the Board of Directors performed in the reporting period.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The annual report contains information on the main results of the work of the Board of Directors performed in the reporting period, but does not contain information on attendance of meetings of the Board of Directors and committees and assessment of such results. The deviation of the Company from compliance with this recommendation is due to the fact that here was no assessment of the work of the Board of Directors for the reporting period. The explanation of the reasons for non-assessment of the work of the Board of Directors for the reporting period is given in paragraph 2.9.1 of this report.

The Company aspires to the fullest compliance with this recommendation of the Code, studies available methods and practices of assessing the quality of the work of the Board of Directors and intends to conduct such an assessment in the future.

2.2.2 The Chairman of the Board of Directors is available for communication with the shareholders of the Company.

Criteria for assessing compliance with the principle of corporate governance
1. There is a transparent procedure in the Company that provides shareholders with the opportunity to send questions to the Chairman of the Board of Directors and their position on them.

The status of compliance with the principle of corporate governance
☒ observed
☐ partially observed
☐ not observed

2.3 The Board of Directors is an efficient and professional management body of the Company, able to provide objective independent judgments and make decisions in the interests of the Company and its shareholders

2.3.1 Only persons with an impeccable business and personal reputation, possessing the knowledge, skills and experience necessary to take decisions within the competence of the Board of Directors and required for the effective performance of its functions are elected as the members of the Board of Directors.
Criteria for assessing compliance with the principle of corporate governance
1. The Company’s procedure for assessment of the Board of Directors’ work efficiency includes, but is not limited to, the assessment of the professional qualifications of the members of the Board of Directors.
2. In the reporting period, the Board of Directors (or its nomination committee) assessed candidates for the Board of Directors in terms of having the required experience, knowledge, business reputation, absence of conflict of interest, etc.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is caused by the fact that the Company does not approve the procedure for evaluating the efficiency of the work of the Board of Directors, which includes, but is not limited to, assessing the professional qualifications of the members of the Board of Directors.
During the reporting period, the Company did not review the necessity of approving the said procedure, since there were no comments to the work of the Board of Directors that would lead to doubt on their professionalism and experience sufficient for making important decisions within the competence of the Board of Directors.
The Company did not assess the candidates to the Board of Directors in the reporting period in terms of having the necessary experience, knowledge, business reputation, and absence of conflict of interest.
This is due to the fact that composition of the members of the Board of Directors barely changed over the last several years. In this regard, there is no doubt that they have the required experience, knowledge and business reputation.

2.3.2 The members of the Board of Directors of the Company are elected through a transparent procedure that allows shareholders to obtain information about candidates sufficient to understand their personal and professional qualities.

Criteria for assessing compliance with the principle of corporate governance
1. In all cases of holding a general meeting of shareholders in the reporting period, the agenda of which included issues on the election of the Board of Directors, the Company provided the shareholders with biographical information of all candidates for the Board of Directors, the results of the assessment of such candidates held by the Board of Directors (or its nomination committee), as well as information on the candidate’s compliance with the independence criteria as per recommendations 102-107 of the Code, and written consent of candidates for election to the Board of Directors.

The status of compliance with the principle of corporate governance
☐ observed
☒ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is due to the fact that during the reporting period the Company did not provide shareholders with the results of assessment of candidates to the Board of Directors, as well as information on the candidate’s compliance with the independence criteria as per recommendations 102-107 of the Code, since the Board of Directors did not perform the said assessment.
Reasons for not performance of the said assessment are indicated in paragraph 2.3.1 of this report.
The Russian legislation and internal documents of the Company do not provide for the obligation to include the information on the candidate’s compliance with the independence criteria specified in the Code, therefore this information was not available in the information about the candidates for membership in the Board of Directors.

2.3.3 The composition of the Board of Directors is well-balanced, including by the qualification of its members, their experience, knowledge and business qualities, and enjoys the trust of shareholders.

Criteria for assessing compliance with the principle of corporate governance
1. Within the framework of the Board of Directors assessment procedure performed in the reporting period, the Board of Directors reviewed its own needs in the field of professional qualifications, experience and business skills.
The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The Company did not perform the assessment of the Board of Directors’ work during the reporting period. Reasons for not performing the said assessment are given in paragraph 2.3.1 of this report.

2.3.4 The quantitative composition of the Board of Directors of the Company provides an opportunity to arrange the work of the Board of Directors in the most efficient manner, including the possibility of forming committees of the Board of Directors, and also provides for significant minority shareholders of the Company the opportunity to elect to the Board of Directors a candidate they are voting for.

Criteria for assessing compliance with the principle of corporate governance
1. As part of the Board of Directors’ assessment procedure performed during the reporting period, the Board of Directors reviewed the issue of the quantitative composition of the Board of Directors being in accordance with the needs of the Company and the interests of shareholders.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Since the Company did not assess the Board of Directors, the latter did not review the compliance of the quantitative composition of the Board of Directors with the needs of the Company and the interests of shareholders. In accordance with the Company’s Charter, the quantitative composition of the Board of Directors is determined by the General Meeting of Shareholders of the Company, but its number should be at least 5 people. The Company believes that at the moment the number of 6 members of the Board of Directors is the most optimal, allowing it to perform its activities efficiently.

2.4 The Board of Directors includes a sufficient number of independent directors

2.4.1 The person acknowledged as independent director shall have sufficient professionalism, experience and independence to form his own position, be able to make objective and conscientious judgments that are independent of the influence of the executive bodies of the Company, certain groups of shareholders or other interested parties. At the same time, it’s required to take into account that a candidate (an elected member of the Board of Directors) who is connected with the Company, its significant shareholder, an significant counterparty or a competitor of the Company or is connected with the state can not be considered independent under general conditions.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, all independent members of the Board of Directors met all independence criteria specified in recommendations 102-107 of the Code, or were recognized as independent by the decision of the Board of Directors.

The status of compliance with the principle of corporate governance
☒ observed
☐ partially observed
☐ not observed

2.4.2 Nominees to the members of the Board of Directors shall be assessed for compliance with independence criteria, and independent members of the Board of Directors shall be regularly checked for compliance with independence criteria. When performing such assessment, the substance should prevail over the form.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the Board of Directors (or its nomination committee) formed an opinion on the independence of each candidate to the Board of Directors and presented a respective conclusion to the shareholders.
2. During the reporting period, the Board of Directors (its nomination committee) at least once considered the independence of the current members of the Board of Directors, whom the Company specifies in its annual report as independent directors.
The Company has developed the procedures that determine the necessary actions of a member of the Board of Directors in the event that it ceases to be independent, including the obligation to promptly inform the Board of Directors about it.

**The status of compliance with the principle of corporate governance**
- observed
- partially observed
- not observed

**Explanations of deviation from criteria for assessing compliance with the principle of corporate governance**
During the reporting period, the Board of Directors did not consider the issue of the independence of each candidate to the Board of Directors and did not submit a relevant opinion to shareholders, as well as the issue of independence of current members of the Board of Directors. According to the Charter and the Regulations on the Board of Directors of the Company, consideration of the issues of independence of each candidate to the Board of Directors and independence of the current members of the Board of Directors is not within the competence of the Board of Directors of the Company. The Company does not develop procedures that determine the necessary actions of a member of the Board of Directors in the event that they cease to be independent, including the obligation to promptly inform the Board of Directors about it.

2.4.3 Independent directors represent at least one-third of the elected Board of Directors.

**Criteria for assessing compliance with the principle of corporate governance**
1. Independent directors represent at least one-third of the Board of Directors.

**The status of compliance with the principle of corporate governance**
- observed
- partially observed
- not observed

2.4.4 Independent directors play a key role in prevention of internal conflicts in the Company and in performance of substantial corporate activities by the Company.

**Criteria for assessing compliance with the principle of corporate governance**
1. Independent directors (who have no conflict of interest) preliminarily assess substantial corporate activities related to a possible conflict of interest, and the results of such an assessment are provided to the Board of Directors.

**The status of compliance with the principle of corporate governance**
- observed
- partially observed
- not observed

**Explanations of deviation from criteria for assessing compliance with the principle of corporate governance**
The deviation from compliance with this recommendation is due to the fact that no substantial corporate activities related with a possible conflict of interests were performed by the Company in the reporting period.

2.5 The Chairman of the Board of Directors facilitates the most efficient implementation of the functions assigned to the Board of Directors.

2.5.1 An independent director was elected as a Chairman of the Board of Directors, or a senior independent director was appointed from among the elected independent directors to coordinate the work of independent directors and interact with the Chairman of the Board of Directors.

**Criteria for assessing compliance with the principle of corporate governance**
1. The Chairman of the Board of Directors is an independent director, or a senior independent director is defined among independent directors.
2. The role, rights and duties of the Chairman of the Board of Directors (and, if applicable, the senior independent director) are duly determined in the internal documents of the Company.

**The status of compliance with the principle of corporate governance**
- observed
- partially observed
- not observed
Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 1 is not observed.
The Chairman of the Board of Directors is not an independent director. In the opinion of the Company, the main criterion for electing the Chairman of the Board of Directors is the knowledge, skills and experience in the area of the Company’s activities, required to make decisions within the competence of the Board of Directors.

2.5.2 The Chairman of the Board of Directors provides a constructive atmosphere for holding meetings, free discussion of issues on the agenda of the meeting, control over the implementation of decisions taken by the Board of Directors.

Criteria for assessing compliance with the principle of corporate governance
1. The work efficiency of the Chairman of the Board of Directors was assessed within the framework of the procedure for the Board of Directors efficiency assessment in the reporting period.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is due to the fact that the work of the Board of Directors was not assessed in the reporting period. The reasons of not-assessment of the work of the Board of Directors in the reporting period are given in paragraph 2.3.1 of this report.

In the opinion of the Company, the work of the Chairman of the Board of Directors in the reporting period was efficient and corresponded to the needs of the Company and the interests of the shareholders. The Company received no comments or suggestions regarding the work of the Chairman of the Board of Directors.

2.5.3 The Chairman of the Board of Directors shall take the necessary measures for provision to the members of the Board of Directors with timely information required for making decisions on the agenda items.

Criteria for assessing compliance with the principle of corporate governance
1. The obligation of the Chairman of the Board of Directors to take measures to ensure the timely provision of materials to the members of the Board of Directors on the agenda of the meeting of the Board of Directors is enshrined in the internal documents of the Company.

The status of compliance with the principle of corporate governance
☒ observed
☐ partially observed
☐ not observed

2.6 The members of the Board of Directors act in good faith and reasonably in the interests of the Company and its shareholders based on sufficient information, with due care and discretion

2.6.1 The members of the Board of Directors make decisions in view of all available information, in the absence of a conflict of interest, with regard to equal attitude to the shareholders of the Company, within limits of usual business risk.

Criteria for assessing compliance with the principle of corporate governance
1. The internal documents of the Company state that a member of the Board of Directors must notify the Board of Directors if he has a conflict of interest with respect to any item on the agenda of a meeting of the Board of Directors or the committee of the Board of Directors before the discussion of the relevant agenda item.
2. Internal documents of the Company stipulate that a member of the Board of Directors must abstain from voting on any issue in which he has a conflict of interest.
3. The Company has established a procedure that allows the Board of Directors to receive professional advice on matters within its competence at the expense of the Company.

The status of compliance with the principle of corporate governance
☒ observed
☐ partially observed
☐ not observed
Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The internal documents of the Company do not state that a member of the Board of Directors is obliged to notify the Board of Directors and must abstain from voting, if he has a conflict of interest, with respect to any item on the agenda of the meeting of the Board of Directors. According to the practice established in the Company, the members of the Board of Directors independently determine the existence of a conflict of interest when considering issues at a meeting of the Board of Directors. In the event of a conflict of interest, the members of the Board of Directors of the Company may abstain from voting on any item on the agenda. The Company does not regulate a procedure that allows the Board of Directors to receive professional advice on matters within its competence at the expense of the Company, but it is possible to involve independent experts for professional advice.

2.6.2 The rights and duties of the members of the Board of Directors are clearly stated and enshrined in the internal documents of the Company.

Criteria for assessing compliance with the principle of corporate governance
1. The Company adopted and published an internal document that clearly defines the rights and duties of the members of the Board of Directors.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☐ not observed

2.6.3 The members of the Board of Directors have enough time to fulfill their duties.

Criteria for assessing compliance with the principle of corporate governance
1. Individual attendance of meetings of the Board and committees, as well as the time devoted to preparing for participation in the meetings, were considered within the procedure for assessment the Board of Directors in the reporting period.
2. In accordance with the Company’s internal documents, the members of the Board of Directors are required to notify the Board of Directors of their intention to join the management bodies of other companies (apart from the Company’s controlled and related entities), as well as the fact of such appointment.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 1 is not observed.
The deviation from compliance with this recommendation is due to the fact that the procedure for the Board of Directors work assessment was not performed by the Company in reporting period. Reasons for not-assessment are given in paragraph 2.3.1 of this report.
Criterion 2 is partially not observed.
The internal documents of the Company do not stipulate that the members of the Board of Directors are obliged to notify the Board of Directors on their intention to join the management bodies of other companies. However, according to clause 6.2. of Regulations on the Board of Directors of the Company, the members of the Board of Directors must inform the Company’s Board of Directors within 10 days after election regarding entities where they hold posts in managements bodies. Changes in the above information are brought to the attention of the Board of Directors by members of the Board of Directors within 10 days after their occurrence.

2.6.4 All the members of the Board of Directors have the equal opportunity to access documents and information of the Company. Sufficient information on the Company and the work of the Board of Directors is provided to newly elected members of the Board of Directors in the shortest possible time.

Criteria for assessing compliance with the principle of corporate governance
1. In accordance with the internal documents of the Company, members of the Board of Directors have the right to access documents and make inquiries concerning the Company and controlled entities, and the executive bodies of the Company are obliged to provide relevant information and documents.
2. In the Company there is a formalized program of get-acquainted sessions for newly elected members of the Board of Directors.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Criterion 2 is not observed.
The deviation from compliance with this recommendation is caused by the practice of the Board of Directors: the new members of the Board of Directors are acquainted with significant aspects of the Company’s activities by the Chairman of the Board of Directors and the General Director of the Company within their competence. Comments and suggestions regarding this practice were not received from the members of the Board of Directors.

2.7 Meetings of the Board of Directors, preparation for and participation in them of the members of the Board of Directors provide for efficient the Board of Directors activities

2.7.1 The meetings of the Board of Directors are held as necessary, in view of the range of activities and purposes of the Company in a certain period of time.

Criteria for assessing compliance with the principle of corporate governance

1. The Board of Directors held at least six meetings for the reporting year.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

2.7.2 The internal documents of the Company stipulate the procedure for preparing and holding meetings of the Board of Directors, which ensures that the members of the Board of Directors can properly prepare for the meeting.

Criteria for assessing compliance with the principle of corporate governance

1. The Company approved an internal document determining the procedure for preparing and holding meetings of the Board of Directors, which, among other things, stipulates that notice of the meeting to be held must be provided, as a rule, at least 5 days before the date of the meeting.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The deviation from compliance with this recommendation is caused by the fact that the Regulations on the Board of Directors of the Company define the procedure for preparing and holding meetings of the Board of Directors, but does not stipulate that notification on the meeting should be made at least five days before the date of its holding. In accordance with the established Regulations, such notification must be made no later than on the date preceding the date of the meeting.

In the opinion of the Company, the procedure for preparing and holding meetings of the Board of Directors stipulated in the Regulations on the Board of Directors, provides members of the Board of Directors with the opportunity to properly prepare for meetings. The term for notifying the members of the Board of Directors is determined by the Chairman of the Board of Directors, depending on the nature of the issues to be considered at the meeting.

2.7.3 The form of the meeting of the Board of Directors is determined in view of the importance of the issues on the agenda. The most important issues are reviewed at attendee meetings.

Criteria for assessing compliance with the principle of corporate governance

1. The Charter or internal document of the Company stipulates that the most important issues (according to the list given in recommendation 168 of the Code) should be reviewed at the Board’s attendee meetings.
The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The deviation from compliance with this recommendation is caused by the opinion of the Company that the development of modern telecommunications practically eliminates differences in the effectiveness of attendee meetings and absentee meetings. A significant part of the issues on the agenda of the Board of Directors meetings is discussed by the members of the Board of Directors before voting — in the course of personal communication via telephone communication or by exchanging electronic messages. When reviewing the most important issues, the Company prefers the attendee form of the Board of Directors’ meetings.

2.7.4 Decisions on the most important issues of the Company’s activities are taken at a meeting of the Board of Directors by a qualified majority or by a majority of all elected members of the Board of Directors.

Criteria for assessing compliance with the principle of corporate governance
1. The Charter of the Company provides that decisions on the most important issues set forth in Recommendation 170 of the Code should be taken at a meeting of the Board of Directors by a qualified majority of not less than three-quarters of the votes, or by a majority of votes of all elected members of the Board of Directors.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Deviation from compliance with this recommendation is due to the fact that the Charter of the Company stipulates that the decision on certain substantive issues of the Board of Directors’ competence should be taken by all members of the Board of Directors unanimously.

In the Company’s practice, any decision by the Board of Directors on an agenda item is preceded by its consideration and preliminary discussion by the members of the Board of Directors through telephone communication or by the exchange of electronic messages. Therefore, as a rule, the Board of Directors takes decisions unanimously.

Currently, the Company does not see the need to amend the Charter of the Company in order to achieve full compliance with these recommendations.

2.8 The Board of Directors establishes committees for preliminary consideration of the most important issues of the Company’s activities

2.8.1 The Audit Committee consisting of independent directors was created for preliminary review of the matters related with the control over the financial and business activities of the Company.

Criteria for assessing compliance with the principle of corporate governance
1. The Board of Directors has formed an Audit Committee consisting exclusively of independent directors.
2. The internal documents of the Company set out the purposes of the Audit Committee, including, but not limited to, the purposes contained in 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, evaluation and audit of accounting (financial) statements.
4. The meetings of the Audit Committee were held at least once a quarter during the reporting period.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Criterion 1 is not observed.

The deviation from compliance with this recommendation is caused by the fact that according to the Regulations on the Audit and Risk Committee of the Board of Directors of the Company, the Audit and Risk Committee may consist of both members of the Board of Directors who are not sole executive bodies or other persons authorized by the Board of Directors of the Company.
2.8.2 Remuneration Committee consisting of independent directors and headed by an independent director who is not the Chairman of the Board of Directors was created for preliminary review of the matters of issues related to the formation of an efficient and transparent remuneration policy.

Criteria for assessing compliance with the principle of corporate governance
1. The Board of Directors established a Remuneration Committee, which consists only of independent directors.
2. The Chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors.
3. The internal documents of the Company set out the purposes of the Remuneration Committee, including, but not limited to, the purposes contained in recommendation 180 of the Code.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is caused by the fact that in view of the Company’s earlier established corporate governance practices, the Board of Directors does not currently have a Remuneration Committee to meet the purposes contained in recommendation 180 of the Code.

2.8.3 Nomination (appointment, HR) Committee, with most of its members being independent directors, was created for preliminary review of the issues related to the implementation of staff planning (succession planning), professional composition and efficiency of the work of the Board of Directors.

Criteria for assessing compliance with the principle of corporate governance
1. The Board of Directors established a Nomination Committee (or its purposes specified in recommendation 186 of the Code are implemented by another committee), the majority of whose members are independent directors.
2. The internal documents of the Company define the purposes of the Nomination Committee (or the corresponding committee with joint functions), including, but not limited to, the purposes contained in recommendation 186 of the Code.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is caused by the fact that, in view of the Company’s earlier established corporate governance practices, the Board of Directors does not currently have a Nomination Committee to meet the tasks contained in recommendation 186 of the Code.

2.8.4 In view of the range of activities and risk level, the Board of Directors of the Company was satisfied that the composition of its committees fully meets the objectives of the Company’s activities. The additional committees were either formed or were not deemed necessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.).

Criteria for assessing compliance with the principle of corporate governance
1. In the reporting period, the Board of Directors of the Company reviewed compliance of the composition of its committees with the purposes of the Board of Directors and the objectives of the Company’s activities. The additional committees were either formed, or were not deemed necessary.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
During the reporting period, the Board of Directors of the Company did not review compliance of the composition of the Audit and Risk Committee of the Board of Directors with the purposes of the Board of Directors and the objectives of the Company’s activities.
The deviation from compliance with this recommendation is caused by the fact that the Board of Directors of the Company did not have any comments on the work of the Audit and Risk Committee of the Board of Directors in the reporting period.

2.8.5 The composition of the committees is defined so that comprehensive discussion of the preliminary reviewed issues with regard to different opinions is possible.

**Criteria for assessing compliance with the principle of corporate governance**

1. Committees of the Board of Directors are headed by independent directors.

2. The internal documents (policies) of the Company stipulate the provisions allowing persons who are not members of the Audit Committee, the Nomination Committee and the Remuneration Committee, to visit committee meetings only upon the invitation of the Chairman of the relevant Committee.

**The status of compliance with the principle of corporate governance**

- observed
- partially observed
- not observed

**Explanations of deviation from criteria for assessing compliance with the principle of corporate governance**

The deviation from compliance with this recommendation is due to the fact that according to the Regulations on the Audit and Risk Committee of the Board of Directors of the Company:

1) the Board of Directors elects the Head (Chairman) of the Committee from among the members of the Committee by a majority vote of the number of members of the Board of Directors present at the meeting of the Board of Directors;

2) any member of the Board of Directors has the right to attend the meeting of the Committee, regardless of whether he is a member of the Committee. All members of the Board of Directors must be notified by the Secretary of the Committee within a reasonable time before the relevant meeting of the time and place of the meeting of the Committee, as well as the agenda of such a meeting.

2.8.6 The Chairmen of the Committees regularly inform the Board of Directors and its Chairman about the work of their Committees.

**Criteria for assessing compliance with the principle of corporate governance**

1. During the reporting period, the Chairmen of the Committees regularly reported on the work of the Committees to the Board of Directors.

**The status of compliance with the principle of corporate governance**

- observed
- partially observed
- not observed

2.9 The Board of Directors provides a quality assessment of the Board of Directors, its Committees and members of the Board of Directors

2.9.1 The quality assessment of the Board of Directors is aimed at determining the level of work efficiency of the Board of Directors, the Committees and the members of the Board of Directors, matching their performance to the needs of the Company’s development, intensification of the Board of Directors work and identification of the areas whether their activities can be improved.

**Criteria for assessing compliance with the principle of corporate governance**

1. The self-assessment or external assessment of the Board of Directors’ work made in the reporting period included the assessment of the Committees, individual members of the Board of Directors and the Board of Directors as a whole.

2. The results of the self-assessment or external assessment of the Board of Directors held during the reporting period were considered at the attendee meeting of the Board of Directors.

**The status of compliance with the principle of corporate governance**

- observed
- partially observed
- not observed
Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Self-assessment or external assessment of the work of the Board of Directors was not performed in the reporting period.

The deviation from compliance with this recommendation is caused by the opinion of the Company that the Board of Directors work assessment is premature due to the lack of a generally accepted methodology for assessing the members of the Board of Directors work in Russian public companies and before the completion of the active stage of corporate legislation reform.

2.9.2 The assessment of the Board of Directors’ work Committees and members of the Board of Directors is performed on a regular basis at least once a year. An external organization (consultant) shall be engaged for independent assessment of the Board of Directors work at least once every three years.

Criteria for assessing compliance with the principle of corporate governance
1. An external organization (consultant) was invited by the Company for independent assessment of the Board of Directors work at least once within the last three reporting periods.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The Company did not involve an external organization (consultant) for an independent assessment of the Board of Directors work during the last three reporting periods.

Explanations of the reasons for the deviation from the said evaluation criterion are similar to the explanations given in paragraph 2.9.1. of this report.

3.1 The Corporate Secretary of the Company carries out efficient current interaction with the shareholders, coordination of the Company’s actions to protect the rights and interests of the shareholders, supporting the efficient work of the Board of Directors

3.1.1 The Corporate Secretary has the knowledge, experience and qualifications, sufficient for the performance of the duties assigned to him, an impeccable reputation and enjoys the trust of the shareholders.

Criteria for assessing compliance with the principle of corporate governance
1. The Company adopted and disclosed an internal document — Regulations on the Corporate Secretary.
2. The Company’s website on the Internet and the annual report contain the background information on the Corporate Secretary with the same level of details as for the members of the Board of Directors and Company’s executive managers.

The status of compliance with the principle of corporate governance
☐ observed
☒ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 2 is partially not observed.

Deviation from compliance with this recommendation is due to the fact that in accordance with the established practice, the Internet site of the Company provides only contact information on the Corporate Secretary.

3.1.2 The Corporate Secretary has sufficient independence from the executive bodies of the Company and has the necessary powers and resources to carry out the tasks assigned to him.

Criteria for assessing compliance with the principle of corporate governance
1. The Board of Directors approves the appointment, removal from office and additional remuneration of the Corporate Secretary.

The status of compliance with the principle of corporate governance
☒ observed
☐ partially observed
☐ not observed
4.1 The level of remuneration paid by the Company is sufficient to facilitate the employment, motivate and retain personnel who have the necessary competence and skills for the Company. Payment of remuneration to members of the Board of Directors, executive bodies and other key executives of the Company is carried out in accordance with the Company’s remuneration policy.

4.1.1 The level of remuneration provided by the Company to the members of the Board of Directors, executive bodies and other key executives creates sufficient motivation for their effective work, allowing the Company to facilitate the employment and retain competent and qualified specialists. In the meantime, the Company avoids the higher level of remuneration, than necessary, as well as an unreasonably large gap between the levels of remuneration of these individuals and employees of the Company.

Criteria for assessing compliance with the principle of corporate governance
1. The Company has adopted an internal document (documents) — a policy (policies) for remuneration of the members of the Board of Directors, executive bodies and other key management personnel, which clearly defines the approaches to remuneration of the said persons.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The Company has not adopted an internal document — a policy on the remuneration of members of the Board of Directors and other key executives, in which the approaches to the remuneration of these individuals are clearly defined.

The deviation from compliance with this recommendation is due to the fact that, in accordance with the Company’s established practice, members of the Board of Directors do not receive remuneration just for their participation in the work of the Board of Directors. In the meantime, members of the Board of Directors who are employees of the Company receive remuneration (salary) within the labour or civil law contracts concluded with them as employees of the Company. The salary to key employees of the Company is established by an employment contract in accordance with the local regulations effective in the Company that determine the wage system.

4.1.2 The Company’s policy on remuneration was developed by the Remuneration Committee and approved by the Board of Directors of the Company. The Board of Directors, with the support of the Remuneration Committee, ensures control over the implementation of the remuneration policy in the Company, and, if necessary, revises and introduces amendments to it.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the Remuneration Committee reviewed the remuneration policy (policies) and practices of its (their) implementation and, if necessary, submitted appropriate recommendations to the Board of Directors.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is due to the fact that the Remuneration Committee is not currently established in the Company’s Board of Directors.

An explanation of the reason why the Remuneration Committee has not been established in the Company is indicated in paragraph 2.8.2 of this report.

4.1.3 The Company’s remuneration policy contains transparent mechanisms for determining the remuneration of members of the Board of Directors, executive bodies and other key management personnel of the Company, as well as regulates all types of payments, benefits and privileges granted to these individuals.

Criteria for assessing compliance with the principle of corporate governance
1. The Company’s remuneration policy (policies) contains (contain) transparent mechanisms for determining the remuneration of members of the Board of Directors, executive bodies and other key
management personnel of the Company, and regulates (regulate) all types of payments, benefits and privileges granted to these.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The Company does not have a separate document that regulates the remuneration policies of the members of the Board of Directors and the General Director of the Company, as well as key management personnel of the Company. The principles of remuneration of members of the Board of Directors are prescribed in the Regulations on the Board of Directors of the Company. The Company has individual employment contracts with the key executives, which stipulate the procedure of remuneration and reimbursement of expenses (compensations).

4.1.4 The Company determines the policy of reimbursement of expenses (compensations), which specifies the list of expenses subject to reimbursement, and the level of service for which members of the Board of Directors, executive bodies and other key management personnel of the Company can claim. Such a policy can be an integral part of the remuneration policy of the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The remuneration policy (policies) or other internal documents of the Company set the rules for reimbursement of expenses of members of the Board of Directors, executive bodies and other key management personnel of the Company.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

4.2 The system of remuneration for members of the Board of Directors ensures the convergence of the directors’ financial interests with the long-term financial interests of the shareholders

4.2.1 The Company pays a fixed annual remuneration to the members of the Board of Directors. The Company does not pay remuneration for participating in separate meetings of the Board or Committees of the Board of Directors.

The Company does not apply forms of short-term motivation and additional material incentives to members of the Board of Directors.

Criteria for assessing compliance with the principle of corporate governance

1. Fixed annual remuneration was the only monetary form of remuneration for the members of the Board of Directors for their work in the Board of Directors during the reporting period.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

Fixed annual remuneration to the members of the Board of Directors is not provided.

The General Meeting of the Company’s Shareholders did not make a decision on the payment of remuneration to the members of the Board of Directors in the reporting year.

4.2.2 Long-term ownership of the Company’s shares is the most conducive to convergence of financial interests of the members of the Board of Directors with long-term interests of the shareholders. In the meantime, the Company does not stipulate the rights to sell shares by achieving certain performance indicators, and the members of the Board of Directors do not participate in option programs.

Criteria for assessing compliance with the principle of corporate governance

1. If the internal document (s) — the Company’s remuneration policy (policies) provides for the allotment of the Company’s shares to the members of the Board of Directors, there shall be clear rules for the ownership of shares by the members of the Board of Directors, aimed at encouraging long-term ownership of such shares.
The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The Company does not have a policy or an option program for the remuneration of the members of the Board of Directors through the provision of the Company’s shares.

4.2.3 The Company does not provide for any additional payments or compensation in the event of early termination of the powers of the members of the Board of Directors due to transfer of control over the Company or other circumstances.

Criteria for assessing compliance with the principle of corporate governance
1. The Company does not provide for any additional payments or compensation in the event of early termination of the powers of the members of the Board of Directors due to transfer of control over the Company or other circumstances.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☒ not observed

4.3 The system of remuneration for the members of executive bodies and other key management personnel of the Company provides for the dependence of remuneration on the result of the work of the Company and their personal contribution to achieving this result

4.3.1 Remuneration of the members of the executive bodies and other key executives of the Company is determined so as to ensure a reasonable and justified ratio of the fixed part and the variable part of the remuneration depending on the results of the Company’s work and the personal (individual) contribution of the employee to the final result.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration for the members of executive bodies and other key management personnel of the Company.
2. In the course of the last assessment of the remuneration system for the members of the executive bodies and other key management personnel of the Company, the Board of Directors (the Remuneration Committee) ascertained that an effective ratio of the fixed part and the variable part of the remuneration is applied in the Company.
3. The Company provides for a procedure that ensures the return to the Company of bonuses paid improperly to the members of the executive bodies and other key management personnel of the Company.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

During the reporting period, the Board of Directors did not approve the annual performance indicators to be used in determining the amount of variable remuneration for key management personnel of the Company.
Deviation from compliance with this recommendation is due to the fact that in accordance with the practice established in the Company, the amount of remuneration and the procedure for payment to key employees of the Company are established by an employment contract in accordance with the Company’s local regulatory acts determining the wage system.

4.3.2 The Company introduced a long-term motivation program for the members of the executive bodies and other key executives of the Company using the shares of the Company (options or other derivative financial instruments, the underlying asset for which are the shares of the Company).
Criteria for assessing compliance with the principle of corporate governance

1. The Company introduced a long-term motivation program for the members of the executive bodies and other key executives of the Company using the Company’s shares (financial instruments based on the shares of the Company).

2. The program of long-term motivation of the members of executive bodies and other key management personnel of the Company provides that the right to sell shares and other financial instruments used in such a program comes not earlier than three years from the date of their provision. In the meantime, the right to implement them is limited by the achievement of certain indicators of the Company’s activity.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The Company does not have a long-term motivation program for the members of the executive bodies and other key executives using the Company’s shares.

4.3.3 The amount of compensation (golden parachute) paid by the Company in case of early termination of powers to the members of executive bodies or key executives at the initiative of the Company and in the absence of unfair acts on their part does not exceed double fixed part of annual remuneration.

Criteria for assessing compliance with the principle of corporate governance

1. The amount of compensation (golden parachute) paid by the Company in the event of early termination of powers to the members of executive bodies or key executives at the initiative of the Company and in the absence of unfair acts on their part did not exceed double fixed part of the annual remuneration in the reporting period.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

5.1 The Company has created an efficient risk management and internal control system, aimed at ensuring reasonable confidence in achieving the goals set for the Company

5.1.1 The Board of Directors of the Company determines the principles and approaches to the arrangement of the risk management and internal control system in the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The functions of various management bodies and divisions of the Company in the risk management and internal control system are clearly defined in the internal documents / relevant policies of the Company, approved by the Board of Directors.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

5.1.2 The executive bodies of the Company ensure the creation and maintenance of the functioning of an efficient risk management and internal control system in the Company.

Criteria for assessing compliance with the principle of corporate governance

1. The executive bodies of the Company provided for distribution of functions and powers with regard to risk management and internal control among the subordinate managers (chiefs) of departments and divisions.

The status of compliance with the principle of corporate governance

☐ observed
☐ partially observed
☐ not observed

5.1.3 The system of risk management and internal control in the Company provides an unbiased, fair and
clear understanding of the current condition and prospects of the Company, the integrity and transparency of the Company’s reporting, the reasonableness and acceptability of the risks accepted by the Company.

Criteria for assessing compliance with the principle of corporate governance
1. The Company has adopted a policy on anti-corruption.
2. An accessible way of informing the Board of Directors or the Audit Committee of the Board of Directors about the facts of violation of legislation, internal procedures, and the code of ethics of the Company is arranged in the Company.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

5.1.4 The Board of Directors of the Company takes the necessary measures to ensure that the existing system of risk management and internal control in the Company corresponds to the principles and approaches to its organization that are determined by the Board of Directors and efficiently operates.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the Board of Directors or the Audit Committee of the Board of Directors assessed the efficiency of the Company’s risk management and internal control system. Information on the main results of such an assessment is included in the annual report of the Company.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The deviation from compliance with this recommendation is due to the fact that information on the main results of the assessment of the efficiency of the Company’s risk management and internal control system is not included in the Company’s annual report.

5.2 The Company arranges an internal audit for a systematic independent assessment of the reliability and efficiency of risk management and internal control system and the practice of corporate governance

5.2.1 A separate structural subdivision was created in the Company or an independent external organization was involved to conduct the internal audit. The functional and administrative accountability of the internal audit subdivision are divided. The internal audit subdivision is functionally subordinate to the Board of Directors.

Criteria for assessing compliance with the principle of corporate governance
1. In order to conduct the internal audit, a separate subdivision of internal audit has been created in the Company, which is functionally accountable to the Board of Directors or the Audit Committee, or an independent external organization with the same principle of accountability was involved.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

5.2.2 The internal audit subdivision assesses the efficiency of the internal control system, the risk management system as well as the corporate governance system. The Company applies generally accepted standards of activity in the field of internal audit.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the efficiency of the internal control and risk management system was assessed within the framework of the internal audit.
2. The Company uses the generally accepted approaches to the internal control and risk management.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed
6.1 The Company and its activities are transparent to shareholders, investors and other interested parties

6.1.1 The Company has developed and implemented an information policy that ensures effective information interaction of the Company with shareholders, investors and other interested parties.

Criteria for assessing compliance with the principle of corporate governance
1. The Company’s Board of Directors approved the Company’s information policy, developed with due regard to the recommendations of the Code.
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.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 2 is not observed.
During the reporting period, the Board of Directors did not consider a separate issue on the Company’s compliance with its information policy.
The deviation from the recommendations is caused by the fact that the disclosure of information by the Company is carried out in compliance with the requirements of the current legislation and listing rules.

6.1.2 The Company discloses information on the corporate governance system and practice, including detailed information on compliance with the principles and recommendations of the Code.

Criteria for assessing compliance with the principle of corporate governance
1. The Company shall disclose information on the corporate governance system in the Company and the general principles of corporate governance applied in the Company, including on the Company’s website on the Internet.
2. The Company shall disclose information on the composition of the executive bodies and the Board of Directors, the independence of the members of the Board and their membership in the committees of the Board of Directors (in accordance with the definition of the Code).
3. In the event that there is a person controlling the Company, the Company publishes a memorandum of the controlling person regarding the plans of such person in relation to the corporate governance in the Company.

The status of compliance with the principle of corporate governance
- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 3 is not observed.
The deviation from compliance with this recommendation is due to the fact that no memorandum was received from the person controlling the Company. In the event that a memorandum is received from the person controlling the Company, the Company will publish it.

6.2 The Company timely discloses full, up-to-date and reliable information about the Company in order to ensure the possibility of making reasonable decisions by the shareholders of the Company and investors

6.2.1 The Company discloses information in accordance with the principles of regularity, consistency and promptness, as well as the availability, reliability, completeness and comparability of the disclosed data.

Criteria for assessing compliance with the principle of corporate governance
1. The information policy of the Company defines the approaches and criteria for determining information that can have a significant impact on the valuation of the Company and the value of its securities, and procedures that ensure the timely disclosure of such information.
2. If the securities of the Company are traded in foreign arranged markets, the disclosure of material information in the Russian Federation and in such markets is synchronous and equivalent during the reporting year.
3. If foreign shareholders own a significant number of shares in the Company, during the reporting year, information was disclosed not only in Russian, but also in one of the most common foreign languages.
The status of compliance with the principle of corporate governance
☐ observed
do not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 1 is partially not observed.
The Company's information policy does not define approaches and criteria for determining information that can have a significant impact on the Company’s valuation and the value of its securities.
In the opinion of the Company, the criteria for determining information that can have a significant impact on the Company’s valuation and the value of its securities are determined by the current legislation. During the reporting period, no comments or proposals were received from shareholders or other interested parties. The Company’s securities do not circulate in foreign regulated markets.

6.2.2 The Company avoids a formal approach when disclosing information and discloses significant information about its activities, even if disclosure of such information is not provided for by law.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the Company disclosed the annual and semi-annual financial statements prepared in accordance with IFRS. The annual report of the Company for the reporting period includes annual financial statements prepared in accordance with IFRS, together with an audit report.
2. The Company shall disclose full information on the Company’s capital structure in accordance with the Code’s Recommendation 290 in the annual report and on the Company’s website on the Internet.

The status of compliance with the principle of corporate governance
☐ observed
do not observed

6.2.3 The annual report, being one of the most important tools of information interaction with shareholders and other interested parties, contains information allowing assessment of the results of the Company’s activities for the year.

Criteria for assessing compliance with the principle of corporate governance
1. The annual report of the Company contains information on key aspects of the Company’s operating activities and its financial results.
2. The annual report of the Company contains information on the environmental and social aspects of the Company’s activities.

The status of compliance with the principle of corporate governance
☐ observed
do not observed

6.3 The Company provides information and documents on the requests of shareholders in accordance with the principle of equal and unhindered access

6.3.1 The provision of information and documents by the Company at the request of shareholders is carried out in accordance with the principle of equal and unhindered access.

Criteria for assessing compliance with the principle of corporate governance
1. The information policy of the Company determines an easy procedure for providing shareholders with access to information, including information on entities controlled by the Company, at the request of shareholders.

The status of compliance with the principle of corporate governance
☐ observed
do not observed
6.3.2 When providing information to shareholders, the Company provides a reasonable balance between the interests of particular shareholders and the interests of the Company itself, which is interested in preserving the confidentiality of important commercial information that may have a significant impact on its competitiveness.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the Company did not refuse to satisfy the shareholders’ requests for information, or such refusals were justified.
2. In cases determined by the information policy of the Company, shareholders are warned about the confidential nature of the information and assume the responsibility to preserve its confidentiality.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☐ not observed
☐ not in compliance with

7.1 Actions that significantly affect or may affect the structure of the share capital and financial condition of the Company and, accordingly, the shareholders’ position (substantial corporate activities) are carried out on fair terms ensuring compliance with the rights and interests of shareholders as well as other interested parties

7.1.1 Substantial corporate activities include the reorganization of the Company, the acquisition of 30 percent or more of the Company’s voting shares (takeover), the Company’s material transactions, the increase or decrease of the Company’s authorized capital, the listing and delisting of the Company’s shares, as well as other actions that could lead to a significant change in the rights of shareholders or violation of their interests. The Company’s charter specifies a list (criteria) of transactions or other actions that are substantial corporate activities, and such actions are referred to the competence of the Company’s Board of Directors.

Criteria for assessing compliance with the principle of corporate governance
1. The Company’s Charter defines a list of transactions or other actions that are substantial corporate activities and criteria for their determination. Decisions on substantial corporate activities are within the competence of the Board of Directors. In cases where the implementation of these corporate actions is directly attributed by law to the competence of the general meeting of shareholders, the Board of Directors provides shareholders with appropriate recommendations.
2. The Charter of the Company refers to material corporate actions as at least the following: reorganization of the Company, acquisition of 30 percent or more of the Company’s voting shares (takeover), significant transactions by the Company, increase or decrease of the Company’s authorized capital, listing and delisting of the Company’s shares.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☐ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 1 is not observed.
The Company’s Charter does not define a list of transactions or other actions that are substantial corporate activities and criteria for their determination.
In this case, according to paragraph 7.2. of the Company’s Charter, taking decisions on the following substantial corporate actions refers to the competence of the Board of Directors:
• approval of transactions on disposal or acquisition of fixed assets and intangible assets for an amount exceeding 3 percent of the Company’s assets as of the last reporting date;
• approval of the justification for the terms and procedure of the Company’s reorganization;
• taking decisions on the Company’s participation in other companies, as well as on changing the share of participation (the number of shares, the size of shares, stakes) and the termination of the Company’s participation in other companies (with the exception of companies specified in sub-clause 6.4.21. of the Charter);
• taking decisions on increasing and decreasing the authorized (share) capital of the Company’s subsidiaries and affiliates (including by increasing the nominal value of shares or by placing additional shares);
• application of listing of the Company’s shares and (or) equity securities of the Company convertible into the Company’s shares.
According to Clause 6.5.2 of the Company’s Charter, corporate actions that are directly attributed by the legislation to the competence of the general meeting of shareholders can be taken by the general meeting of shareholders without the proposal (recommendation) of the Board of Directors of the Company. In the opinion of the Company, as in accordance with the requirements of the legislation, the wording of decisions on the agenda of the General Meeting of Shareholders is determined by the Board of Directors of the Company in preparation for the General Meeting of Shareholders, provision of appropriate recommendations to shareholders is not required.

7.1.2 The Board of Directors plays a key role in making decisions or making recommendations for substantial corporate activities, the Board of Directors relies on the position of independent directors of the Company.

Criteria for assessing compliance with the principle of corporate governance
1. The Company provides for a procedure in accordance with which independent directors declare their position on substantial corporate activities before they are approved.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
The Company does not provide for a procedure whereby independent directors state their position on substantial corporate activities before they are approved.
In the Company’s opinion, each member of the Board of Directors before voting can express its position on substantial corporate activities — in the process of personal communication through telephone communication or by exchanging electronic messages.

7.1.3 When substantial corporate activities affecting the rights and legal interests of shareholders, equal conditions are provided for all shareholders of the Company, and in the event that the mechanisms provided for by law are not sufficient to protect the rights of shareholders, additional measures that protect the rights and legitimate interests of the shareholders of the Company are provided. In the meantime, the Company is guided not only by compliance with the formal requirements of legislation, but also by the principles of corporate governance set out in the Code.

Criteria for assessing compliance with the principle of corporate governance
1. The Charter of the Company, taking into account the specifics of its activities, establishes a lower minimum criteria for the attribution of transactions of the Company to substantial corporate activities.
2. During the reporting period, all substantial corporate activities had been approved before they were implemented.

The status of compliance with the principle of corporate governance
☐ observed
☐ partially observed
☒ not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
Criterion 2 is not observed.
In accordance with the requirements of the legislation of the Russian Federation, major transactions and related party transactions do not require mandatory prior consent for their execution.

7.2 The Company provides such a procedure of substantial corporate activities that allows shareholders to receive timely full information about such activities, provides them with the opportunity to influence the performance of such activities and guarantees compliance with and an adequate level of protection of their rights in the performance of such activities.

7.2.1 Information on the performance of substantial corporate activities is disclosed with an explanation of the reasons, conditions and consequences of such activities.

Criteria for assessing compliance with the principle of corporate governance
1. During the reporting period, the Company disclosed in a timely and detailed manner information on substantial corporate activities of the Company, including the grounds and timing of such activities.
The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

7.2.2 The rules and procedures related to execution of substantial corporate activities are enshrined in the internal documents of the Company.

Criteria for assessing compliance with the principle of corporate governance

1. Internal documents of the Company stipulate the procedure for inviting an independent appraiser to determine the value of property disposed or acquired under a major transaction or a related party transaction.
2. Internal documents of the Company stipulate the procedure for inviting an independent appraiser to estimate the cost of acquisition and buyback of the Company’s shares.
3. Internal documents of the Company provide for an expanded list of grounds on which members of the Board of Directors of the Company and other persons envisaged by law as interested in transactions of the Company.

The status of compliance with the principle of corporate governance

- observed
- partially observed
- not observed

Explanations of deviation from criteria for assessing compliance with the principle of corporate governance

The deviation from compliance with this recommendation is due to the opinion of the Company that the current corporate legislation provides sufficient guarantees and determines efficient mechanisms for protecting the rights and interests of shareholders when making major transactions and related-party transactions, as well as buybacks and acquisitions of equity shares by issuers. This position is supported by the absence in the Company of corporate conflicts related to the execution of these transactions, buybacks or acquisitions of shares.

USE OF ENERGY RESOURCES

The volume of energy resources used in 2017:

<table>
<thead>
<tr>
<th>Energy Source</th>
<th>The volume of consumption in physical terms</th>
<th>Unit of measurement</th>
<th>The volume of consumption, thousand rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nuclear energy</td>
<td>0</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>Thermal energy</td>
<td>163,609 GCal</td>
<td></td>
<td>212,583</td>
</tr>
<tr>
<td>Electric energy</td>
<td>174,073,720 kWh</td>
<td></td>
<td>613,610</td>
</tr>
<tr>
<td>Electromagnetic energy</td>
<td>0</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>Oil</td>
<td>0</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>Motor gasoline</td>
<td>106,061 l</td>
<td></td>
<td>3,473</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>110,676 l</td>
<td></td>
<td>3,172</td>
</tr>
<tr>
<td>Burner fuel</td>
<td>0</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>Natural gas</td>
<td>27,185,624 cub. m</td>
<td></td>
<td>139,448</td>
</tr>
<tr>
<td>Coal</td>
<td>0</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>Oil shale</td>
<td>0</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>Peat</td>
<td>0</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>Water</td>
<td>12,030,852 cub. m</td>
<td></td>
<td>115,833</td>
</tr>
<tr>
<td>Other *</td>
<td>0</td>
<td>—</td>
<td>6,586</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>1,094,705</strong></td>
</tr>
</tbody>
</table>
THE LIST OF MAJOR TRANSACTIONS AND TRANSACTIONS WHICH ARE SUBJECT TO THE COMPANY’S CHARTER APPROVAL OF MAJOR TRANSACTIONS IN 2017

In 2017, there were no major transactions requiring approval by the authorized management body of the Company, and transactions for which the Company’s Charter extends the approval of major transactions.

LIST OF RELATED-PARTY TRANSACTIONS IN 2017

Date of transaction: 20.01.2017
Type of transaction: Agreement on provision of bank guarantees No. 00.19-2 / 09/005/17
Interested party (parties): the member of the Board of Directors of PJSC “Power machines” Lukin Vladimir Andreevich

Grounds for the recognition of a person (s) as an interested party (parties) in its execution: the member of the Board of Directors of PJSC “Power machines” holds a position in the management body of a legal entity (a member of the Board of Directors), which is a party to the transaction.

Essential conditions of the transaction:
Transaction parties (beneficiaries):
Guarantor — Bank No. 11

Subject of transaction:
The Guarantor grants the Principal 2 (Two) bank guarantees (hereinafter referred to each as the “Guarantee”, and jointly — “Guarantees”) to ensure proper performance by the Principal of its obligations to the Beneficiary on the return of the advance payment paid in accordance with clause 8.1.2. Contract No. 05030856/131178-0877/253/1185-D/2015-Ku1,2-4 dated December 14, 2015 (hereinafter referred to as the “Agreement”) concluded between the Principal and the Beneficiary on the following terms:
- Guarantee No. 00.19-2/09/005-1/17 is provided in order to fulfill the obligation of the Principal to return the advance payment paid in accordance with clause 8.1.2. Contracts for equipment for power units No. 1 and No. 2 of Kursk NPP-2 based on the results of the acceptance and transfer of Package No. 4 of the initial design data;
- Guarantee No. 00.19-2/09/005-2/17 is provided in order to fulfill the obligation of the Principal to return the advance payment paid in accordance with clause 8.1.2. Contracts for equipment for power units No. 1 and No. 2 of Kursk NPP-2 based on the results of the acceptance and transfer of Package No. 5 of the initial design data.

Transaction price:
The amount of Guarantee No. 00.19-2/09/005-1/17 is 123,674,502 (One hundred twenty three million six hundred seventy four thousand five hundred and two) rubles 00 kopecks;
The amount of Guarantee No. 00.19-2/09/005-2/17 is 123,674,502 (One hundred twenty three million six hundred seventy four thousand five hundred and two) rubles 00 kopecks;
The Principal shall pay to the Guarantor a commission for the provision of Guarantees in the amount of 1.1 (One point one) % per annum of the amount of each Guarantee for the period from the effective date of the

* includes oxygen, argon, acetylene
The information is not disclosed in accordance with Resolution of the Government of the Russian Federation of 15.01.2018 No. 10.
Guarantee (inclusive) to the expiration date of the Guarantee (inclusive). Guarantees can not be withdrawn by the Guarantor.

Other essential conditions:
The Agreement comes into force from the date of its signing by the Parties and is valid until the Parties fulfill their obligations under the Agreement.
The expiration date of the Guarantees is 12.04.2023 (inclusive).
The commission for providing the Guarantee is paid quarterly:
• for the period from the effective date of the Guarantee until the end of the current calendar quarter — on the date of issue of the Guarantee;
• for each subsequent calendar quarter — not later than the first working day of each next calendar quarter.
The Company’s management body that approved the resolution: the Board of Directors

Date of transaction approval: 27.02.2017

Date of transaction: 28.04.2017
Type of transaction: Agreement on provision of bank guarantee No. 00.19-2/09/034/17
Interested party (parties): the member of the Board of Directors of PJSC “Power machines” Lukin Vladimir Andreevich

Grounds for the recognition of a person (s) as an interested party (parties) in its execution: the member of the Board of Directors of PJSC “Power machines” holds a position in the management body of a legal entity (a member of the Board of Directors), which is a party to the transaction.

Essential conditions of the transaction:
Transaction parties (beneficiaries):
Guarantor — Bank No. 11;
Principal — Public Joint Stock Company “Power machines — ZTL, LMZ, Electrosila, Energomachexport”
Beneficiary — Joint Stock Company “Consolidated NPP Equipment Procurement Directorate”.

Subject of transaction:
The Guarantor shall provide the Principal with a bank guarantee to ensure the Principal’s proper performance of its obligations to the Beneficiary on the return of the advance payment paid in accordance with clause 8.1.2 of the Agreement No. 05030856 / 131178-0877 / 253/1185-D / 2015-Ku1,2-4 from December 14, 2015, concluded between the Principal and the Beneficiary, for the equipment for the power units No. 1 and No. 2 of Kursk NPP-2 based on the results of the acceptance and transfer of Package No. 6 of the initial design data.

Transaction price:
The amount of Guarantee is 123,674,502 (One hundred twenty three million six hundred seventy four thousand five hundred and two) rubles 00 kopecks;
The Principal shall pay to the Guarantor a commission for the provision of the Guarantee in the amount of 1.1 (One point one) % per annum of the amount of the Guarantee for the period from the effective date of the Guarantee (inclusive) to the expiration date of the Guarantee (inclusive).

Other essential conditions:
The effective date of the Guarantee is the date of issue of the bank guarantee.
The expiration date of the Guarantee is 12.04.2023.
The commission for providing the Guarantee is paid quarterly:
• for the period from the effective date of the Guarantee until the end of the current calendar quarter — on the date of issue of the Guarantee;
• for each subsequent calendar quarter — not later than the first working day of each next calendar quarter.
The Company’s management body that approved the resolution: the Board of Directors

Date of transaction approval: 27.04.2017

Date of transaction: 24.07.2017
Type of transaction: Agreement on provision of bank guarantee No. 00.19-2/09/104/17
Interested party (parties): the member of the Board of Directors of PJSC “Power machines” Lukin Vladimir Andreevich

Grounds for the recognition of a person (s) as an interested party (parties) in its execution: the member of the Board of Directors of PJSC “Power machines” holds a position in the management body of a legal entity (a member of the Board of Directors), which is a party to the transaction.

Essential conditions of the transaction:

a The information is not disclosed in accordance with Resolution of the Government of the Russian Federation of 15.01.2018 No. 10.
Transaction parties (beneficiaries):
Guarantor — Bank No. 119;
Principal — Public Joint Stock Company “Power machines — ZTL, LMZ, Electrosila, Energomachexport”
Beneficiary — Limited Liability Company “Foreign Economic Association Technopromexport”.

Subject of transaction:
The Guarantor grants the Principal 1 (One) bank guarantee to ensure the Principal’s proper performance of its obligations to the Beneficiary for the return of advance payments under the Contract No. 000000000073016 0444/53201500046 dated September 30, 2015 for the supply of steam turbine units complete with generators and auxiliary equipment for operation in the composition of CCGT steam-gas units — 235 on the terms specified in the Agreement on the provision of a bank guarantee No. 00.19-2 / 09/104/17 of 24.07.2017.

Transaction price:
The amount of the guarantee is 156,927,063.38 (One hundred and fifty six million nine hundred twenty seven thousand sixty three) rubles 38 kopecks.
The Principal shall pay to the Guarantor a commission for the provision of the Guarantee in the amount of 1.1 (One point one) % per annum of the amount of the Guarantee for the period from the effective date of the Guarantee (inclusive) to the expiration date of the Guarantee (inclusive).

Other essential conditions:
The effective date of the Guarantee is 01.08.2017.
The commission for providing the Guarantee is paid quarterly:
• for the period from the effective date of the Guarantee until the end of the current calendar quarter — on the effective date of the Guarantee;
• for each subsequent calendar quarter — not later than the first working day of the quarter.
The Company’s management body that approved the resolution: the Board of Directors
Date of transaction approval: 29.09.2017

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Date of transaction: 07.08.2017
Type of transaction: Agreement on provision of bank guarantee No. 00.19-2/09/035/17
Interested party (parties): the member of the Board of Directors of PJSC “Power machines”
Lukin Vladimir Andreevich

Grounds for the recognition of a person (s) as an interested party (parties) in its execution:
The member of the Board of Directors of PJSC “Power machines” holds a position in the management body of a legal entity (a member of the Board of Directors), which is a party to the transaction.

Essential conditions of the transaction:
Transaction parties (beneficiaries):
Guarantor — Bank No. 1110;
Principal — Public Joint Stock Company “Power machines — ZTL, LMZ, Electrosila, Energomachexport”
Beneficiary — Joint Stock Company “Consolidated NPP Equipment Procurement Directorate”.

Subject of transaction:
The Guarantor shall provide the Principal with a bank guarantee to ensure the Principal’s proper performance of its obligations to the Beneficiary for the return of the advance payment paid in accordance with clause 8.1.2 of the Agreement No. 05030856 / 131178-0877 / 253/1185-D / 2015-Ku1,2-4 from December 14, 2015, concluded between the Principal and the Beneficiary, for the equipment for the power units No. 1 and No. 2 of Kursk NPP-2 based on the results of the acceptance and transfer of Package No. 7 of the initial design data.

Transaction price:
The amount of Guarantee is 123,674,502 (One hundred twenty three million six hundred seventy four thousand five hundred and two) rubles 00 kopecks;
The Principal shall pay to the Guarantor a commission for the provision of the Guarantee in the amount of 1.1 (One point one) % per annum of the amount of the Guarantee for the period from the effective date of the Guarantee (inclusive) to the expiration date of the Guarantee (inclusive).

Other essential conditions:
The effective date of the Guarantee is the date of issue of the bank guarantee.
The expiration date of the Guarantee is 12.04.2023.
The commission for providing the Guarantee is paid quarterly:

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9 The information is not disclosed in accordance with Resolution of the Government of the Russian Federation of 15.01.2018 No. 10.
10 The information is not disclosed in accordance with Resolution of the Government of the Russian Federation of 15.01.2018 No. 10.
• for the period from the date of issue of the Guarantee until the end of the current calendar quarter — on the date of issue of the Guarantee;
• for each subsequent calendar quarter — not later than the first working day of each next calendar quarter.

The Company’s management body that approved the resolution: the Board of Directors

Date of transaction approval: 27.04.2017

Date of transaction: 27.09.2017

Type of transaction: Additional agreement No. 1 to the Agreement on setting a limit for the provision of bank guarantees No. 00.19-2-1 / 09/001/16 of 30.09.2016

Interested party (parties): the member of the Board of Directors of PJSC “Power machines” Lukin Vladimir Andreevich

Grounds for the recognition of a person (s) as an interested party (parties) in its execution: the member of the Board of Directors of PJSC “Power machines” holds a position in the management body of a legal entity (a member of the Board of Directors), which is a party to the transaction.

The share of participation of the interested party (interested parties) in the authorized capital (the share fraction owned by the interested party (interested parties)) of the Company and the legal entity that was a party to the transaction as of the date of the transaction:

- The share of participation of the interested party in the authorized capital of the Company: 0%;
- The share fraction owned by the interested party in the authorized capital of a legal entity that was a party to the transaction: 0%.

Essential conditions of the transaction:

Transaction parties (beneficiaries):
Guarantor — Bank No. 1111;
Principal — Public Joint Stock Company “Power machines — ZTL, LMZ, Electrosila, Energomachexport”.

Transaction price:
The transaction price in the Additional Agreement No. 1 is not defined.

The Additional Agreement No. 1 is an interrelated transaction in which there is an interest with previously concluded and approved transactions, namely: The Agreement on setting a limit for the provision of bank guarantees No. 00.19-2-1 / 09/001/16 of 30.09.2016 (hereinafter referred to as the Agreement) and the Loan Agreement No. 00.19-2-1 / 01/001/16 (revolving credit line) of 14.09.2016, therefore the aggregate transaction price (several interrelated transactions) is no more than 18,802 million rubles.

Other essential conditions:
The maximum period of validity of each Guarantee provided within the Limit is 72 (Seventy-two) months. The period of use of the Limit — the period during which the Guarantees may be granted is determined until September 30, 2018. The term of the Agreement is until September 30, 2023.

The Company’s management body that approved the resolution: Extraordinary General Meeting of Shareholders

Date of transaction approval: 08.12.2017

Date of transaction: 01.12.2017

Type of transaction: Service Agreement No. 58

Interested party (parties): the member of the Board of Directors of PJSC “Power machines” Vasilkov Roman Vladimirovich

Grounds for the recognition of a person (s) as an interested party (parties) in its execution: the member of the Board of Directors of PJSC “Power machines” holds a position in the management body of a legal entity (a member of the Board of Directors), which is a party to the transaction.

Essential conditions of the transaction:

Transaction parties (beneficiaries):
Contractor — Limited Liability Company PARTNER;
Customer — Public Joint Stock Company “Power machines — ZTL, LMZ, Electrosila, Energomachexport”.

Subject of transaction:

11 The information is not disclosed in accordance with Resolution of the Government of the Russian Federation of 15.01.2018 No. 10.
The Customer authorizes, and the Contractor undertakes to render services for organization, convocation and holding of the General Meetings of the Customer’s shareholders held in 2018 (hereinafter — the meeting), including the performance of the functions of the Counting Commission.

**Transaction price:**

- The cost of the Contractor’s services specified in subclauses 2.1.1. — 2.1.4. of the Contract is 32,400 (thirty-two thousand four hundred) rubles (VAT exempt) for each meeting.
- The cost of the Contractor’s services specified in subclause 2.1.5. of the contract amounts to 6,300 (Six thousand three hundred) rubles (VAT exempt) for sending documents for each meeting.
- The total cost of the Contractor’s services, specified in clauses 3.1. and 3.2. of the Contract is 38,700 (Thirty-eight thousand seven hundred) rubles (VAT exempt).

**Other essential conditions:**

- The Customer is obliged to reimburse the Contractor’s expenses for sending to the Customer through the organization of express delivery of documents in the cases provided for in sub-clauses 2.1.6. and 2.2.3. of the Contract, which are confirmed by copies of documents, certified by the signature of the authorized person and the seal of the Contractor.
- The Customer is obliged to reimburse the Contractor’s expenses in the event that the functions of the counting commission are performed at a meeting outside the location (office) of the Contractor, which are confirmed by copies of documents certified by the signature of the authorized person and the seal of the Contractor.
- The agreement is effective from its signing and shall be valid until the parties fulfill their obligations.

**The Company’s management body that approved the resolution:** the Board of Directors

**Date of transaction approval:** 29.01.2018
## Glossary

### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APCS</td>
<td>Automated Process Control System</td>
</tr>
<tr>
<td>NPP</td>
<td>Nuclear power plant</td>
</tr>
<tr>
<td>BELAZ</td>
<td>Belarusian Automobile Plant</td>
</tr>
<tr>
<td>ETB</td>
<td>Exchange-traded bonds</td>
</tr>
<tr>
<td>WWER-TOI</td>
<td>Water-Water Energetic Reactor, typical optimized informatized</td>
</tr>
<tr>
<td>RES</td>
<td>Renewable energy sources</td>
</tr>
<tr>
<td>University</td>
<td>Higher educational institution</td>
</tr>
<tr>
<td>PSPP</td>
<td>Pumped storage power plant</td>
</tr>
<tr>
<td>SDPP</td>
<td>The state district power station (in Russia — thermal power stations)</td>
</tr>
<tr>
<td>STG</td>
<td>Synchronous traction generator</td>
</tr>
<tr>
<td>GTP (GTPP)</td>
<td>Gas turbine plant (gas turbine power plant)</td>
</tr>
<tr>
<td>SI</td>
<td>State institution</td>
</tr>
<tr>
<td>EMERCOM</td>
<td>The Main Department of the Ministry of the Russian Federation for Civil Defense, Emergencies and Elimination of Consequences of Natural Disasters</td>
</tr>
<tr>
<td>SUE</td>
<td>State Unitary Enterprise</td>
</tr>
<tr>
<td>HPP</td>
<td>Hydraulic power station</td>
</tr>
<tr>
<td>UES</td>
<td>Unified Energy System</td>
</tr>
<tr>
<td>GSC</td>
<td>Gland steam condensers</td>
</tr>
<tr>
<td>ITED</td>
<td>Integrated thyristor electric drives (AC electric drive)</td>
</tr>
<tr>
<td>MIRBIS</td>
<td>Moscow International Higher School of Business (Institute)</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>SRI</td>
<td>Scientific Research Institute</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development work</td>
</tr>
<tr>
<td>CCGT</td>
<td>Combined-cycle gas turbine</td>
</tr>
<tr>
<td>TLV</td>
<td>Threshold Limit Value</td>
</tr>
<tr>
<td>RAS</td>
<td>Russian Accounting Standards</td>
</tr>
<tr>
<td>TGV</td>
<td>Hydrogen cooled turbogenerator</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
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</tr>
<tr>
<td>TPP</td>
<td>Thermal power plant</td>
</tr>
<tr>
<td>CHPP</td>
<td>Combined heat and power plant</td>
</tr>
<tr>
<td>ТВФ</td>
<td>Hydrogen cooled turbogenerator</td>
</tr>
<tr>
<td>ТА, ТФ, Т3Ф, Т3ФА</td>
<td>Full-Air Cooled Turbine Generator</td>
</tr>
<tr>
<td>SanPiN</td>
<td>Sanitary Regulations and Standards</td>
</tr>
<tr>
<td>ACS</td>
<td>Automated control system</td>
</tr>
<tr>
<td>PPE</td>
<td>Personnel protective equipment</td>
</tr>
<tr>
<td>MDS</td>
<td>Monitoring and Diagnostic Systems</td>
</tr>
<tr>
<td>JV</td>
<td>Joint venture</td>
</tr>
<tr>
<td>SSCP</td>
<td>Super-supercritical parameters</td>
</tr>
<tr>
<td>FSAEI HE</td>
<td>Federal State Autonomous Educational Institution of Higher Education</td>
</tr>
<tr>
<td>FSBEI HPE</td>
<td>Federal State Budgetary Educational Institution of Higher Professional Education</td>
</tr>
<tr>
<td>FPFIS</td>
<td>Federal Publicly Funded Institution of Science</td>
</tr>
<tr>
<td>FSUE</td>
<td>Federal State Unitary Enterprise</td>
</tr>
<tr>
<td>CNC</td>
<td>Computer numerical control</td>
</tr>
<tr>
<td>ECM</td>
<td>Electronic computing machine</td>
</tr>
<tr>
<td>CAD/CAE</td>
<td>Computer Aided Design System</td>
</tr>
<tr>
<td>EPC</td>
<td>Contract (Engineering, procurement and construction)</td>
</tr>
<tr>
<td>ERP</td>
<td>Enterprise resource planning</td>
</tr>
<tr>
<td>LTIFR</td>
<td>Lost time injury frequency rate</td>
</tr>
<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
</tr>
<tr>
<td>MHI</td>
<td>Mitsubishi Heavy Industries</td>
</tr>
<tr>
<td>SAP</td>
<td>Systems, applications and products in data processing</td>
</tr>
</tbody>
</table>
Units

<table>
<thead>
<tr>
<th>Term</th>
<th>Textual Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gcal, Gigacalorie</td>
<td>Unit of measurement of thermal energy</td>
</tr>
<tr>
<td>Gcal / h, Gigacalorie / hour</td>
<td>Unit of thermal power</td>
</tr>
<tr>
<td>Hz, Hertz</td>
<td>Frequency of electric current</td>
</tr>
<tr>
<td>kV, Kilovolt</td>
<td>Unit of measurement of voltage</td>
</tr>
<tr>
<td>kWh, Kilowatt hour</td>
<td>Unit of measurement of generated electric energy</td>
</tr>
<tr>
<td>kW, Kilowatt</td>
<td>Unit of measurement of electrical power</td>
</tr>
<tr>
<td>MVA, Megavolt-ampere</td>
<td>Unit of measurement of total power</td>
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<tr>
<td>MW, Megawatt</td>
<td>Unit of measurement of electrical power</td>
</tr>
<tr>
<td>GW, Gigawatt</td>
<td>Unit of measurement of electrical power</td>
</tr>
<tr>
<td>MPa, Megapascal</td>
<td>Unit of measurement of pressure</td>
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</tbody>
</table>

Editorial assumptions in the text of the report

<table>
<thead>
<tr>
<th>Term</th>
<th>Textual Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Stock Company &quot;Northern Production Association &quot;Arctic&quot;</td>
<td>JSC “SPO Arctic”</td>
</tr>
<tr>
<td>Joint Stock Company &quot;Atomenergomash&quot;</td>
<td>JSC &quot;Atomenergomash&quot;</td>
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<tr>
<td>Joint Stock Company &quot;Far East plant “Zvezda”</td>
<td>JSC “DVZ “Zvezda”</td>
</tr>
<tr>
<td>Joint Stock Company &quot;Consolidated NPP Equipment Procurement Directorate&quot;</td>
<td>JSC “Consolidated NPP Equipment Procurement Directorate&quot;</td>
</tr>
<tr>
<td>Joint Stock Company &quot;Karelsky Okatysh&quot;</td>
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</tr>
<tr>
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<td>JSC “RATTE”</td>
</tr>
<tr>
<td>Joint Stock Company &quot;Ruselprom&quot;</td>
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</tr>
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</tr>
<tr>
<td>Joint Stock Company “Severstal Management”</td>
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</tr>
<tr>
<td>“System Operator of the United Power System”</td>
<td>“SO UPS”, JSC</td>
</tr>
<tr>
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<td>JSC Severgroup</td>
</tr>
<tr>
<td>Joint Stock Company “Tyazhmash”</td>
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</tr>
<tr>
<td>Joint Stock Company “Uralgidromash”</td>
<td>JSC UGM</td>
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<tr>
<td>Corporation Name</td>
<td>Abbreviation</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Joint Stock Company &quot;Ural Turbine Plant&quot;</td>
<td>JSC UTZ</td>
</tr>
<tr>
<td>Open Joint Stock Company &quot;BELAZ&quot;</td>
<td>OJSC BELAZ</td>
</tr>
<tr>
<td>Public Joint Stock Company &quot;Scientific-Production Association &quot;ELSIB&quot;</td>
<td>PJSC NPO ELSIB</td>
</tr>
<tr>
<td>Limited Liability Company &quot;Severgroup&quot;</td>
<td>LLC Severgroup</td>
</tr>
<tr>
<td>Public Joint Stock Company &quot;Power machines” — ZTL, LMZ, Electrosila, Energomachexport”</td>
<td>PJSC &quot;Power machines&quot;, Power Machines, the Company</td>
</tr>
<tr>
<td>Open Joint Stock Company &quot;Kaluga Turbine Works&quot;</td>
<td>OJSC KTZ, OJSC Kaluga Turbine Works</td>
</tr>
<tr>
<td>Open Joint Stock Company &quot;Taganrog Boiler-Building Plant &quot;Krasny Kotelshchik&quot;</td>
<td>OJSC TKZ Krasny Kotelshchik</td>
</tr>
<tr>
<td>Open Joint Stock Company &quot;Scientific Production Association for Research and Design of Power Equipment named after. I.I. Polzunov&quot;</td>
<td>OJSC NPO CKTI</td>
</tr>
<tr>
<td>Limited Liability Company &quot;Turbine Technologies AAEM&quot;</td>
<td>AAEM LLC</td>
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<tr>
<td>Limited Liability Company &quot;KoNoS&quot;</td>
<td>KoNoS LLC</td>
</tr>
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<td>Limited Liability Company Linde Power machines</td>
<td>Linde Power machines LLC</td>
</tr>
<tr>
<td>Limited Liability Company &quot;PARTNER&quot;</td>
<td>PARTNER LLC</td>
</tr>
<tr>
<td>Limited Liability Company &quot;Privod&quot;</td>
<td>Privod LLC</td>
</tr>
<tr>
<td>Limited Liability Company &quot;Design and Technical Firm CNIITMASH&quot;</td>
<td>PTF CNIITMASH LLC</td>
</tr>
<tr>
<td>Limited Liability Company &quot;Power Machines — Rheostat Plant&quot;</td>
<td>Power Machines – Rheostat Plant LLC</td>
</tr>
<tr>
<td>Limited Liability Company &quot;Power Machines — Toshiba. High-voltage transformers&quot;</td>
<td>PMTT LLC</td>
</tr>
<tr>
<td>Limited Liability Company &quot;Siemens Gas Turbine Technologies&quot;</td>
<td>Siemens Gas Turbine Technologies LLC</td>
</tr>
<tr>
<td>Limited Liability Company &quot;FLORIAN&quot;</td>
<td>FLORIAN LLC</td>
</tr>
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<td>Regulations on insider information of OJSC Power Machines, approved by the Board of Directors on May 6, 2016 (Minutes No. 297)</td>
<td>Regulations on insider information</td>
</tr>
<tr>
<td>Regulations on disclosure of information by issuers of equity securities, approved by the Bank of Russia as of 30.12.2014 No. 454-P</td>
<td>Regulations on Disclosure of Information</td>
</tr>
<tr>
<td>Production site &quot;Leningrad Metal Works&quot;</td>
<td>LMZ</td>
</tr>
<tr>
<td>Production site &quot;Electrosila&quot; Plant</td>
<td>Electrosila Plant, Electrosila</td>
</tr>
<tr>
<td>Unit of turbine blades of the Leningrad Metal Works</td>
<td>KTL</td>
</tr>
</tbody>
</table>
The shop of low-speed turbines of the Turbine Production of the Leningrad Metal Works
TP / CTT

Procurement shop of the Leningrad Metal Works
ZP

Public Joint Stock Company "Mosenergo"
PJSC Mosenergo

Public Joint Stock Company "Uralmashzavod"
PJSC Uralmashzavod

Transactions of interest
Related party transactions

the Board of Directors of PJSC Power Machines
the Board of Directors;

the Charter of PJSC Power Machines
the Charter

the Federal Law No. 208-FZ of December 26, 1995 "On Joint Stock Companies"
the Federal Law “On Joint Stock Companies”

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