



SAFMAR

Financial
investments



2018 Annual Report

About this Report

In this Annual Report, the terms PJSC "SAFMAR Financial investments", "SFI", "Company", "holding company", "holding" and "we" in various forms refer to all companies whose results are consolidated in the 2018 IFRS financial statements of PJSC "SAFMAR Financial investments". This Annual Report should be read together with our 2018 audited financial statements (IFRS).

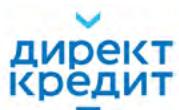
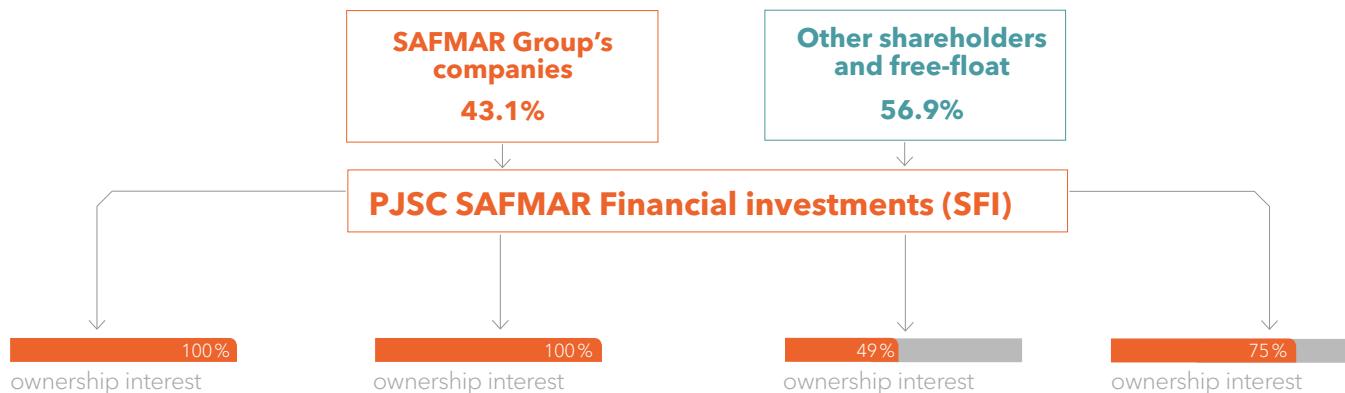
This Report has been prepared taking into account the best practices in corporate reporting and disclosure, and in accordance with Bank of Russia Regulation No. 454-P dated December 30, 2014, On information disclosure by issuers of equity securities and recommendations of Bank of Russia Corporate Governance Code.

The list of terms and abbreviations used herein is given at the end of the Annual Report.

This Annual Report was pre-approved by the Board of Directors on 25 April 2019.

Company's Revision Inspector confirmed the accuracy of the data presented in this Annual Report.

SFI AT A GLANCE



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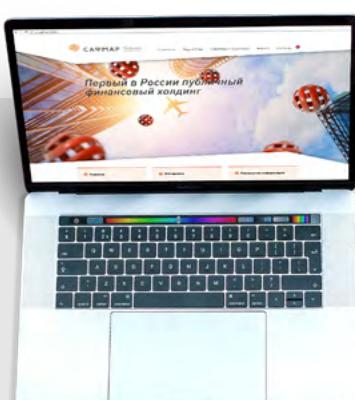
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For more information
please visit our web site at
www.safmarinvest.ru



We are always keen to hear
what you think about the
**2018 Annual Report of PJSC
SAFMAR Financial investments.**

Please send your comments
and feedback to
ir@safmarinvest.ru

Business overview and key highlights

PJSC SAFMAR Financial investments

is a diversified public investment holding company incorporated in 2016. Its core business is to invest and manage financial assets.

For more details on the Company's position in the industries of its portfolio companies, please see **Our assets** section on pages

30-59

ASSET PORTFOLIO^①

LEASING

20 years

in the leasing market



Leasing portfolio net of reserves:

>56.6 bn RUB

NON-GOVERNMENTAL PENSION FUNDS

>20 years

in the pension market



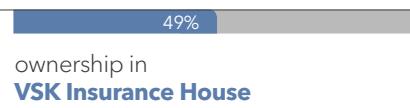
Assets under management:^④

>288.3 bn RUB

INSURANCE

>25 years

in the insurance market



Gross written premiums:

>96.3 bn RUB

POS LENDING

Launched in

2011



Clients:

>72.0 bn RUB

① As at the end of 2018.

② Considering the direct and indirect ownership equal to 72.98 and 27.02% respectively.

③ Following the reorganisation of NPF Mospromstroy-Fund as a joint-stock company in December 2018, SFI received 31.7% of its stock, which is equal to 100% of the fund's total issued voting shares.

④ Consolidated data for NPF SAFMAR, NPF Doverie and NPF Mospromstroy-Fund as at 30 September 2018.



Absolute car leasing
leader in Russia

A from ACRA

BB from Fitch

No. 6 by the number
of clients

A+pf from the National
Rating Agency

≈55,000
effective lease contracts

83,000
companies

≈4.1^m
accounts

No. 5 by retirement
savings under
management

>30^m
retail accounts

>500,000
companies

top 10
insurance
company
in Russia

ruAA from RAEX
(Expert RA)

BB-
from Fitch

Market share:^②
>19%

One of Russia's largest POS lending
brokers boasting proprietary
cutting-edge software

^① For more details on SAFMAR Group and its assets, please visit www.safmargroup.ru.

^② Management estimates.

MISSION

Our mission is to maximise shareholder value through investing and effectively managing promising Russian financial companies and projects with a significant upside potential.

INVESTMENT HIGHLIGHTS

- 1 High resilience to macroeconomic fluctuations owing to the diversified investment portfolio
- 2 Focus on leaders in every dedicated segment
- 3 Clear development strategy to ensure strong portfolio synergies
- 4 Value creation model focusing on long-term growth and sustained increases in dividend yields
- 5 Professional team with unique expertise and competencies in the financial industry

KEY STRATEGIC PRINCIPLES

-  Investments in financial companies and related businesses
-  Strategic portfolio management
-  Investments in portfolio asset development
-  Maximisation of value through stronger cross-business synergies
-  Monetisation of portfolio assets through increased dividend flow and capitalisation
-  Sustainably growing market capitalisation

For more information please see **Strategy** section on pages

 **22-25**

SHARE CAPITAL STRUCTURE¹

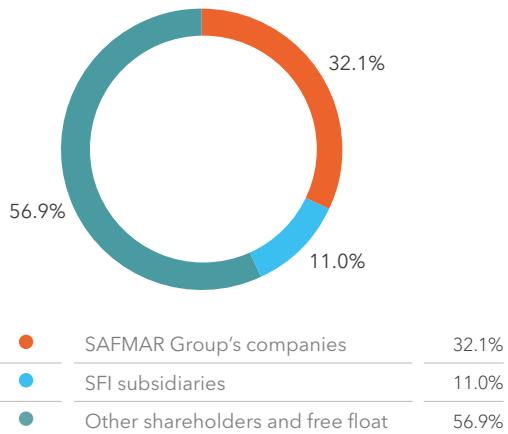
The Company's shares are traded on the Moscow Exchange ² (ticker code: **SFIN**)³. International Securities Identification Number (**ISIN**): **RU000A0JWW89**.

RATINGS

In June 2018, S&P Global Ratings assigned SFI a **B+** long-term credit rating, positive outlook.

Share capital structure

as at 31 December 2018



FINANCIAL PERFORMANCE (IFRS)

Total income from operations and finance income

21.7 bn RUB

Net profit

8.9 bn RUB

Return on Equity

10.7%

Earnings per share

85.9 RUB

- ¹ As of 31 December 2018. As of the end of the reporting period, free-float stood at 43% as calculated in accordance with the Moscow Exchange's official methodology.
- ² Public Joint-Stock Company "Moscow Exchange MICEX-RTS" (INN 7702077840, OGRN 1027739387411, licence No. 077-001).
- ³ Starting 3 January 2018, the ticker was altered following PJSC Europlan's change of name to PJSC SAFMAR Financial Investments in August 2017.

Key events and developments in 2018

February

- On 15 February 2018, the Board of Directors of SAFMAR Financial investments approved the Company's new dividend policy. Under the policy, the target dividend payout ratio is at least 75% of: (1) the RAS net profit; or (2) the free cash flow for the reporting year, with the lesser of the two serving as a basis to calculate dividend payouts.
- The Board of Directors also approved the holding company's consolidated strategy that sets out the Company's strategic goals for 3-5 years.

March

- The Extraordinary General Meeting of Shareholders approved the acquisition of a controlling stake in NPF Doverie.

April

- The Company closed the deal to acquire NPF Doverie. Since 26 April 2018, SFI has been controlling NPF Doverie via Invest-Project, which owns 100% of NPF Doverie's authorised capital. The acquisition price was RUB 11.8 bn.

June

- On 29 June 2018, S&P Global Ratings assigned SFI a B+ long-term credit rating, positive outlook.
- Total dividends paid for 2017 financial year amounted to RUB 3.4 bn (RUB 30.25 per share).

July

- SFI's annual report became a Vision Awards gold winner in the Financials nomination and ranked among Top 20 and Top 80 annual reports in Russia and the EMEA, respectively.

August

- Daglis, one of the Company's shareholders, sold 16.75 million ordinary shares of SFI (ca. 15% of its authorised capital). The deal was completed by way of an accelerated book building process.
- The Company signed an SPA to acquire Direct Credit Centre^①, a high-tech credit broker.

September

- Europlan LC paid the Company RUB 1.4 bn in dividends, which is 100% of its 6M 2018 IFRS net profit.

November

- On 14 November 2018, the Company's Board of Directors approved a three-year programme to buy back the holding company's shares for up to RUB 6 bn. As part of the programme, the holding company's subsidiaries will acquire SFI's ordinary shares traded on the Moscow Exchange via a broker. The buyback will be financed from the Company's available cash.

- On 30 November 2018, SAFMAR Financial investments became the owner of a 75% stake in DCC's authorised capital. The investment is fully in line with the Company's key strategic goals.

December

- NPF Mospromstroy-Fund^② completed reorganisation as a joint-stock pension fund. As part of the reorganisation, 31.7% of NPF Mospromstroy-Fund's shares (100% of total voting shares) were allocated to SAFMAR Financial investments, which had previously contributed RUB 160 m to the capital paid in by the fund's founders.

^① Direct Credit Centre Limited Liability Company (OGRN 1157746356690) ("Direct Credit Centre", "DCC").

^② Joint-Stock Company Mospromstroy-Fund Non-State Pension Fund (OGRN 1187700021937) ("NPF Mospromstroy-Fund").

KEY EVENTS AFTER THE REPORTING DATE

- In February 2019, the Bank of Russia approved the reorganisation of NPF SAFMAR through its merger with NPF Doverie.
- In March 2019, NPF SAFMAR completed reorganisation through the merger with NPF Doverie. NPF SAFMAR assumed all the rights and obligations of NPF Doverie.

ACQUISITION OF A STAKE IN DIRECT CREDIT CENTRE

In August 2018, SAFMAR Financial investments signed a sale and purchase agreement (SPA) for a stake in Direct Credit Centre (DCC), one of Russia's largest POS lending brokers established in 2011. The deal was closed in November 2018, with SFI acquiring the ownership of a 75% stake in DCC's authorised capital.

DCC is the first Russian broker to integrate major POS lending banks into its platform and to become an online lending aggregator. It has come to the forefront thanks to advanced IT solutions and a highly professional team of developers, managers and underwriters. DCC seeks to introduce and integrate cutting-edge POS financing solutions. The POS lending market is expected to grow as emerging technologies make it easier to borrow or pay in instalments and increase the availability of instalment loans in retail chains.

Investment in DCC is in line with the Company's key strategic goals approved in February 2018. Direct Credit is a mature business complementary to other business lines of SFI. Expected return on investment is 25%.

72 bn RUB

Credit turnover in 2018

19% POS lending market share^❶

25% Expected ROI



❶ Management estimates.

Our History

PJSC SAFMAR Financial investments is a major financial market player managing leasing, insurance, pension assets and POS lending, all of which lead the charge in their respective business segments. Below are the key milestones in the holding's and its assets history.

1992

- Establishment of VSK Insurance House (JSIC "VSK").

2000

- Establishment of the Group's insurance business (eventually, B&N Insurance). In 2016, the Group completed the integration of insurance businesses – VSK Insurance House acquired a 100% stake in B&N Insurance.

2013

- Acquisition of NPF European Pension Fund.

1999

- Establishment of Europlan Company (formally known as DeltaLeasing until May 18, 2004).

2012

- Acquisition of NPF Obrazovanie i Nauka.

2014

- Acquisition of NPF Regionfond.

2015

- Acquisition of PJSC Europlan, Europlan's IPO on the Moscow Exchange.
- Acquisition of NPF Raiffeisen (subsequently rebranded as NPF SAFMAR).

2017

- The holding's leasing operations were spun off into JSC Europlan LC, a subsidiary with a 100% equity participation of SFI.
- PJSC Europlan renamed to PJSC SAFMAR Financial investments, which brings a close the long process of building a public financial holding company. Reorganisation proceeded fully in line with the statements made to investors during the public offering in December 2016.

2016

- Acquisition of a 49% stake in VSK Insurance House.
- Completing the integration of insurance businesses – VSK Insurance House acquired a 100% stake in B&N Insurance.
- Incorporation of three pension funds in NPF SAFMAR.
- Europlan's SPO; establishment of SAFMAR Financial investments, a public holding company.

2018

- Acquisition of NPF Doverie. As at 31 December 2018, SFI controlled NPF Doverie via Invest-Project, which owns 100% of NPF Doverie's authorised capital. In March 2019, the fund was reorganised via a merger with NPF SAFMAR.
- Acquisition of a 75% stake in Direct Credit Centre, a Russian POS lending broker.
- Completion of NPF Mospromstroy-Fund reorganisation as a joint-stock pension fund. As part of the reorganisation, 31.7% of NPF Mospromstroy-Fund's shares (100% total issued voting shares) were allocated to SAFMAR Financial investments.



Leasing of new vehicles and machines at no extra charge

Europlan enables legal entities and individuals to lease vehicles and comfortably use them under finance lease arrangements. The quality of its services and the contribution to development of leasing in Russia have earned Europlan multiple international awards hailing it as the best leasing and vehicle leasing company (Global Banking & Finance Review Awards, International Finance Magazine Awards, Acquisition International).



Absolute car leasing
leader in Russia

50.4
RUB bn

Investments
in the new business

86.4
RUB bn

New business in the car
leasing segment

56.6
RUB bn

Leasing portfolio
net of reserves

2,000

Employees



Pension funds: changing perception

The main priorities of SAFMAR Group pension funds are transparency and openness of the investment process, balanced investment policy, increase of customer base loyalty, digitalisation and improvement of corporate governance.







Insurance based on partnership and trust

We work hard to develop the domestic insurance market, especially in the regions. To get there, we put utmost importance on fulfilling any and all obligations we undertake.



Top 10 insurance
company in Russia

7,100

Employees

31.3
RUB bn

Insurance payouts

VSK provides insurance coverage for

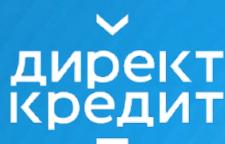
>500,000 and 30^m
companies retail clients

96.3
RUB bn

Written premiums

15





Ahead of the curve in POS lending

We firmly believe that soon enough long and tiresome questionnaires will become a thing of the past, and making a purchase with a loan will be as easy as paying cash or using a bank card.

№ 1

POS lending service
in Russia

16

Integrated financial
partners

>10,000

Users of the system

5

Large education centres
that offer remote training
across Russia

>5,000

Employees



Chairman's Statement

Dear shareholders!

Despite the turbulent macroeconomic environment and the ever-changing and sometimes unpredictable geopolitics, 2018 was more than a successful year for us. As we improved our operating and financial performance, we optimised our existing assets and add some new ones to drive growth going forward.

In 2018, the Company's share capital structure saw no major changes. Holding companies of SAFMAR Group remain our largest shareholder and with a ca. 40% stake, while the Company's free float exceeds 40%.

Our Company is growing and evolving, successfully working to enhance its corporate governance, build transparent shareholder relations, and improve investment appeal.

In early 2018, the Board of Directors approved a new dividend policy, which provides for the target dividend payout at a fairly ambitious level of at least 75% of the Company's RAS net profit or free cash flow for the year. In line with the new policy, SAFMAR Financial Investments paid out a total of RUB 3.4 bn in dividends for 2017, or 99% of the Company's 2017 net profit under RAS.

As part of its commitment to enhance corporate governance, the Company followed the majority of recommendations set forth by the Corporate Governance Code in 2018. Last year saw a number of changes in the composition of the Board of Directors: the number of directors went down to 11, including three independent directors, who help run the Board's Audit Committee and the Remuneration and Nomination Committee. Fully aligned with the listing rules of the Moscow Exchange,

this helps the Board perform and excel. The new Board of Directors approved the Company's key strategic areas of focus for the upcoming years.

In spring 2018, the General Meeting of Shareholders accepted the Board of Directors' proposal to approve a transaction to acquire a controlling interest in NPF Doverie, a private pension fund. The deal marked the first stage of SAFMAR Group's consolidation of two large pension assets, a move which was completed in March 2019 through the acquisition of NPF Doverie by NPF SAFMAR. Also, in 2018, the Company completed a transaction to acquire 75% in Direct Credit Centre, a highly profitable lending broker with a track record of cooperation with SAFMAR Group and a special focus on POS lending in household and digital appliances.

A major component of the Company's investment appeal is the ability of SAFMAR Financial Investments to generate a solid growth in operating income through its subsidiaries and controlled entities. In 2018, the profit of our subsidiaries and controlled entities increased to RUB 13.9 bn, while the holding company's profit reached RUB 8.9 bn.

In 2018, SAFMAR Financial investments was assigned an international credit rating of B- with a stable outlook from S&P. The agency added that the rating can be upgraded subject to a number of factors, including dividends from subsidiaries and no debt at the holding company's level. We follow this recommendation as a guidance going forward and expect to deliver some tangible results as early as summer 2019 for our S&P partners to review and hopefully revise our rating upwards.



Every year, charity is a major item of the Company's budget. In 2018, among other things, the Company contributed RUB 80 m to SAFMAR Charitable Foundation.

The 2018 performance of SAFMAR Financial investments provides us with ample opportunities to grow inorganically by acquiring new assets or investing in new businesses that are aligned with our strategic objectives both in terms of their activities and margins.

In 2019, the Board of Directors and the management will continue working to deliver on the Company's strategy approved last year. We are committed to further increasing the Company's shareholder value, maintaining dividend payments in line with the approved dividend policy, growing our asset value, and identifying potential investments to diversify our portfolio.

On a final note, I would like to assure our shareholders that the Company will take every step to deliver against its strategic goals and build up value for investors. I would like to wish a successful year of 2019 to the team of SAFMAR Financial investments and our subsidiaries. I am sure that this year will be as strong for us as was the previous one.

Oleg Vyugin

Chairman of the Board of Directors
PJSC SAFMAR Financial investments

CEO's Statement

Dear shareholders!

In 2018, the consolidated net profit of SAFMAR Financial investments went up 8% y-o-y to RUB 8.9 bn, hitting a three year-high since consolidation of the Group's assets into a single holding. SFI maintained ROE above 10%, which is a great result for a financial services company.

Each of our portfolio companies continues to benefit from the synergies delivered through asset consolidation, with the leasing and insurance businesses demonstrating record high results.

Over the year, Europlan LC retained its undisputed leadership in the car leasing market by leveraging the advantages of its streamlined business model and extensive industry expertise. Europlan's profit reached RUB 3.3 bn, up 16% y-o-y, and its leasing portfolio grew 40% to RUB 57 bn. The company also saw Fitch upgrade its rating to BB.

In 2018, VSK, one of Russia's largest insurance houses, reported an all-time high net profit of RUB 8 bn. The company is increasingly active in promising market segments and segments of strategic importance – savings and investment life insurance, motor hull insurance, accident and health insurance, property insurance, and VHI. Combined with a conservative risk approach, this helps achieve excellent financial performance.

When it comes to the pension fund, 2018 was marked by an organisational overhaul: NPF SAFMAR kicked off an acquisition of NPF Doverie, while NPF Mospromstroy-Fund

was reorganised into a joint stock company. The acquisition, which was completed in March 2019, propelled NPF SAFMAR to the fifth position among domestic NPFs in terms of assets under management and the sixth position in terms of the number of clients: the retirement savings exceeded RUB 279 bn, while pension reserves totalled ca. RUB 8.4 bn with more than 4 million customers served. The fund's executives are now going to work towards strengthening its position, making pension savings and reserve management more efficient, and ensuring business growth going forward. Other strategic priorities of the fund include initiatives to boost client loyalty, digitalisation, and improvement of corporate governance.

In the reporting year, SFI acquired 75% of Direct Credit, one of Russia's largest credit brokers in consumer lending. It offers hi-tech solutions helping customers of both online and offline stores obtain consumer or instalment loans. The company is looking at massive growth potential on the back of expected advances in consumer lending and a large number of partnerships with retail chains.

To summarise, 2018 was a rewarding year for SFI as we tapped into new niches and delivered great results in our operating areas. On behalf of the management, I would like to thank our shareholders and investors for their trust. Going forward, we will continue to apply our best efforts to ensure technological progress, while maintaining strong profitability and adhering to the highest corporate governance standards.



"Each of our portfolio companies continues to benefit from the synergies delivered through asset consolidation, with the leasing and insurance businesses demonstrating record high results".

Avet Mirakyan

Chief Executive Officer
PJSC SAFMAR Financial investments

Our Strategy

Our strategy focuses on investments in the premium Russian financial assets leading the charge in dedicated market segments to build a diversified high-performance investment portfolio.

Our investment decisions prioritise the companies and innovative teams that create new markets and shape prospective demand giving the holding company a competitive edge in the rapidly changing international and economic environment. We target financial assets which have the potential to become a valuable addition to our existing assets and enhance the shareholder value.

Company's consolidated development strategy that was approved by the Board of Directors in February 2018.

KEY STRATEGIC PRINCIPLES

► Investments in financial companies and related businesses

1. Ongoing monitoring of the M&A market.
2. Putting together a highly professional investment team.
3. Investment decision-making based on the following elements:
 - a. a mature business with recurrent and foreseeable earnings;
 - b. a well-balanced risk profile of the investment target (BB- rating or assets with the potential for an upgrade to BB- in the short run);
 - c. complementary nature towards other business lines resulting in synergies.

► Strategic portfolio management

1. For each asset, we pick a team having the best matching competencies to manage it (Board of Directors, management team, CIOs).
2. Assets are managed via the Board of Directors and CIOs without getting down to the operations. The key focus is on:
 - a. defining the asset development and monetisation strategy;
 - b. incentivising the management of portfolio companies in line with the asset monetisation strategy.

► Investments in portfolio asset development

1. Monitoring opportunities to minimise cost of funding for portfolio companies.
2. Supporting portfolio companies in raising funds.
3. Short-term funding in line with the asset's development strategy.

► Maximisation of value through stronger crossbusiness synergies

1. Linking portfolio companies with each other to identify and realise synergies.
2. Investment directors reporting to the CEO are industry experts. KPI includes seeking and monetising synergies.
3. Incentivising the management team to develop synergies.
4. Effective risk management as part of portfolio management (ongoing monitoring of risk management policies, monitoring of assets' operations by the Internal Audit function).

► Monetisation of portfolio assets through assets-focused dividend policy and capitalisation growth

1. Investment horizon: over three years.
2. Dividend yield as a priority for portfolio assets
3. Monitoring opportunities in line with the new investors attraction strategy.

► Sustainably growing capitalisation

1. Introduction of the dividend policy. Commitment to pay out at least 75% of the holding company's net profit (standalone) / free cash flow of the holding company.
2. Efficient management, ongoing cost control.
3. Transparent corporate governance framework and an ongoing open dialogue with the investment community.

STRATEGIC GOALS FOR 3-5 YEARS

- Maximising value for shareholders by paying out dividends and increasing the Company's capitalisation: total shareholder return.
- High dividend payout ratio from the Company's net profit under RAS.
- Maximising synergies between portfolio assets.
- Further diversification of the asset portfolio by industry.
- International credit rating of BB- for the holding company.
- Investing available cash in leasing and other financial segments not represented in the existing investment portfolio.

INVESTMENT POLICY

Our investment policy aims to implement a value creation model focused on the long-term growth and sustainably rising dividend yields. We carry out ongoing monitoring of the M&A market and keep developing best-in-class investment and assets management expertise, while also remaining committed to greater transparency of the investment process and corporate actions.

KEY INVESTMENT CONSIDERATIONS

Target industry	Focus on the financial industry only
Target segments	Leasing, insurance, pension funds, financial technologies, and companies complementary to the holding company's other businesses
Geography	Mainly Russian assets of nationwide or regional significance
Maturity of the target companies	Rapidly growing companies or mature business models with a steady dividend flow and an international credit rating of at least BB- (or with the potential for an upgrade to BB- in the short run)
Target ownership	A sizeable minority interest or a controlling stake
Investment horizon	Three years or more
Cross-business synergies	Desirable but not a prerequisite for investment decisions

KEY VALUE DRIVERS AND STRATEGIC GOALS

SAFMAR Financial investments has an in-depth industry expertise and a clear shareholder value creation strategy for each of its assets.

Investment	Description	Value creation
	Largest car leasing company in Russia	
	Leasing portfolio net of reserve	RUB 56.6 bn
	In-house client pool, companies	~ 83,000
	Prospective corporate clients	~ 1.5 m
	Effective lease contracts	~ 55,000
	Highly diversified leasing portfolio	the largest client accounts for under 2%
	Universal insurance company with a balanced product portfolio	
	Client base: retail accounts	> 30 m
	Client base: companies	> 500,000
	Total gross written premiums	RUB 96.3 bn
	Regional network	> 500 branches and offices
PENSION BUSINESS^①	Group NPFs are engaged in compulsory pension insurance (CPI) and non-state pension plans (NSPP)	
	Retirement savings	RUB 279.4 bn
	Pension reserves	>8.8 bn
	Client base under CPI	4.0 m
	Client base under NSPP	86,000
	Russia's largest POS lending broker	
	Loans issued	RUB 72 bn
	POS lending market share in 2018 ^②	19%
	Cutting-edge proprietary software	
	Employees	~ 5,000

^① Consolidated data for NPF SAFMAR, NPF Doverie and NPF Mospromstroy-Fund as at 30 September 2018.

^② With due regard to the constraints of the applicable Russian laws regulating non-governmental pension funds.

^③ Management estimates.

Strategy ¹

2018 results

- Maintaining leadership in the car leasing market.
- High ROE at >25%.
- High dividend yield: payout ratio at >50%.
- Developing competencies in leasing-related high-margin segments (organically or via M&A deals).
- Monetising synergies with the holding company's other businesses, cross sales.
- Maintaining international rating of at least BB-.

- No. 1 car leasing company in Russia in 2018 ²
- ROE came in at 32.7%
- Payout ratio at 100% of net profit under IFRS
- BB rating from Fitch

- Maintaining and improving the company's position in the lucrative insurance segments.
- High ROE at >25%.
- Monetising synergies with the holding company's other businesses, cross sales.
- Maintaining international rating of at least BB-.

- Top 10 insurance company in Russia
- Top 5 motor insurer with a share of 7.7% and 10.8% in CMTPL and MHI, respectively.
- ROE came in at 34.3%
- BB- rating from Fitch

- Maintaining and improving the company's position in the CPI and NSPP segments.
- Further consolidating SAFMAR Group's pension funds under NPF SAFMAR.
- Improving loyalty of the client base.
- Streamlining internal processes in the combined pension fund.
- Focusing on high return on the investment portfolio while prioritising investment safety.
- Monetising synergies with the holding company's other businesses, cross sales.
- Obtaining international rating of at least BB-.

- No. 5 by retirement savings under management
- In December 2018, NPF Mospromstroy-Fund completed reorganisation as a joint-stock pension fund. As part of the reorganisation, 31.7% of NPF Mospromstroy-Fund's shares were allocated to SFI.
- In February 2019, the Bank of Russia approved the reorganisation of NPF SAFMAR through its merger with NPF Doverie which was completed in March 2019. NPF SAFMAR assumed all the rights and obligations of NPF Doverie.
- In 2018, NPF SAFMAR delivered negative return on invested retirement savings (-11.0%), while return on pension reserves stood at 2.2%.

- In the near future, the company will formalise its strategy to reflect an increased growth potential supported by SAFMAR Financial investments.

- SAFMAR Financial investments acquired a 75% stake in the company in late November 2018 and did not take part in drafting and approving its strategy for 2018.

¹ Investment in VSK Insurance House is a strategic partnership with VSK Group. The holding company's stake is 49%. The insurance segment development strategy reflects the vision of SAFMAR Financial investments' management team and is not the official strategy of VSK Insurance House.

² Согласно рейтингу лизинговых компаний, опубликованному агентством «Эксперт».

Business model

The Company's business model builds on diversification of the investment portfolio fostering resilience to macroeconomic changes and giving the Company one of its competitive strengths that helps maximise value for all stakeholders.

MACROECONOMIC ENVIRONMENT

Given our strong focus on the domestic market, we depend on the economic conditions in Russia in securing financial stability. As globalisation is quickening its pace, any significant deterioration in the global economy is likely to trigger a slowdown in Russia leading to a decline in demand for our financial products. On top of that, non-credit organisations continue to face tough regulatory requirements from the Bank of Russia. That said, we remain confident that our expertise coupled with continuous monitoring of external factors will enable us to promptly adjust our business processes to any negative changes.

OUR ASSETS

We boast a well-structured portfolio of assets and financial products, which makes us perfectly suited to deliver strong results through synergies between related businesses.

All of our financial assets lead the charge in their respective industries shaping future demand to maximise business efficiency and meet customer needs through a diverse product offering.

STAKEHOLDERS

We remain committed to the principles of responsible business and strive to maintain an open dialogue with all stakeholders, including shareholders, financial institutions and potential investors, employees, suppliers and business partners, non-governmental organisations, government agencies and media.

STRATEGIC PRINCIPLES

In line with the approved Investment Policy, we focus on long-term growth and steadily increasing dividend yields to assert leadership in the Russian financial sector.

VALUE CREATION

Shareholders and investors

We generate stable profits and make tax contributions to the federal and local budgets. Our ambition is to invest in best-in-class assets with a significant value creation upside and secure stable returns for our shareholders.

Employees

We strive to create a unique corporate culture promoting the diversity of talents and high ethic and professional standards across our businesses.

Customers and community

We are keen to offer our customers competitive financial products, solutions and services that meet their needs and help them achieve the desired outcomes. We also take part in a large number of public initiatives, with a variety of charitable and social projects implemented through SAFMAR Charitable Foundation headed by Mikail Gutseriev.

For more details, please see the **Corporate Responsibility and Charity section** on pages

68-73

As a domestically-focused diversified investment holding that brings together non-bank leasing, insurance and pension assets, SAFMAR Financial Investments is well-positioned to deliver sustainable financial performance in the challenging economic environment.

OUR COMPETITIVE EDGE

FINANCIAL SUSTAINABILITY

In 2018, SFI demonstrated a robust growth of its key financial indicators together with the increase in profits and improvements in operating performance across our portfolio.



LOW-RISK ASSETS

We manage to keep our risk exposure low across the portfolio thanks to centralised risk assessment and mitigation, traditionally low leverage, and an impeccable public credit history.



SYNERGY POTENTIAL

We invest in rapidly growing companies or mature business models with a steady dividend flow which have the potential to become a valuable addition to our existing assets.



INTELLECTUAL CAPITAL

Professional investment team with a unique expertise and competencies in the financial industry.



BEST-IN-CLASS BRANDS

Our product and service offering boasts a selection of well-known brands leading the charge in their respective industries and having a significant potential to enhance shareholder value, including through portfolio synergies. Our top priority is to promote strong and trustful relations with all customers and partners.



SHAREHOLDERS AND INVESTORS

Net profit

8.9 bn RUB

Dividends paid in 2018

3.4 bn RUB

Return on Equity

10.7 %

STRATEGIC



Investments in financial companies and related businesses



Strategic portfolio management



Investments in portfolio asset development

STAKE

shareholders



financial institutions



potential investors



employees



OUR A

CAR LEASING

- Passenger cars
- Commercial vehicles
- Self-propelled machines
- Buses, etc.

Car leasing company in Russia

No.1

Europlan Leasing Company

Leasing portfolio net of reserve

56.6 bn RUB

Net profit

3.3 bn RUB

INSURANCE

- Life and property insurance
- Motor insurance
- Voluntary health insurance (VHI), etc.

Insurance company in Russia

Top 10

Gross written premiums

96.3 bn RUB

Net profit

8.0 bn RUB

CREATION

EMPLOYEES

Total employees

>14,000

CUSTOMERS AND COMMUNITY

Dedicated charitable programmes

55

Dedicated financing

≈2.0 bn RUB

For more details, please see
Corporate Responsibility
and Charit section on pages
 **68-73**

PRINCIPLES



Maximisation of value through stronger crossbusiness synergies

Monetisation of portfolio assets through assets-focused dividend policy and capitalisation growth

6

Sustainably growing capitalisation

For more details, please see
Strategy section on pages
 **22-25**

HOLDERS

suppliers and business partners



non-governmental organisations



government agencies



media



ASSETS

PENSION INSURANCE

- Compulsory pension insurance
- Corporate and individual pension plans

**NPF SAFMAR,
NPF Doverie,
NPF Mospromstroy-Fund**

POS LENDING

- POS lending brokerage

Direct Credit Centre

Assets under management

288.3 bn RUB

Clients

4.1 m

Market share

19 %

Loans issued

72 bn RUB

Europlan Leasing Company

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2018

Europlan is a leading car leasing business in Russia that provides corporate and retail clients with a full range of services related to vehicle leases and aftermarket operations. Established in 1999, Europlan leases out vehicles to small and medium-sized entities through its network of branches and representative offices covering over 70 Russian regions.

By the end of 2018, the company has ca. 55,000 leasing contracts currently in effect and around 83,000 reliable corporates that signed leasing contracts in the past. In addition, its leasing portfolio shows low concentrations on major lessees.



Alexander Mikhaylov
CEO, Europlan
Leasing Company



"In 2018, we demonstrated outstanding performance and beat each one of our previous records, while our spectacular financials helped further cement our leadership in the Russian car leasing market. Both customers and partners reaped the benefits of our strong performance, which also garnered us high ratings from ACRA and Fitch."

Europlan's team closed 33,000+ car and equipment leasing deals worth over RUB 86.4 bn, all while maintaining the superior quality of the portfolio."

ASSET AT A GLANCE

Owned by SAFMAR Financial investments

100%

Company Management:

- Chief Executive Officer
- Chairman of the Board of Directors

Alexander Mikhaylov
Avet Mirakyan

No 1 in the Russian car leasing market

Leasing portfolio net of reserve

> RUB 56.6 bn

Leasing contracts in effect

~ 55,000

Employees

~2,000

Leasing portfolio concentrations on major lessees based on IFRS pre-provision net investment balance in 2018, %



>33,000

car and equipment leasing deals closed in 2018

MARKET OVERVIEW

The Russian leasing industry has been around for approximately 20 years. From 2011 to 2018, the industry saw no material adverse changes in the leasing legislation. Potential legislative changes going forward include introduction of the leasing industry regulation by the government, additional requirements by the Bank of Russia, and establishment of self-regulatory organisations (SROs) for leasing companies.

CAR LEASING MARKET IN 2018

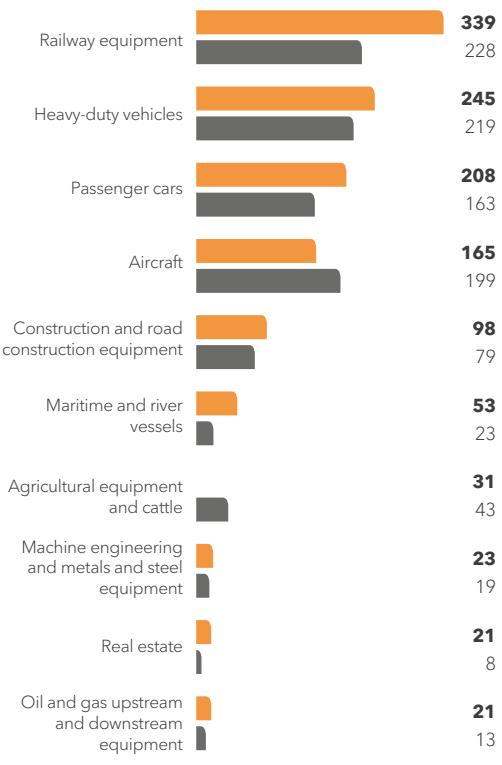
As compared to other segments, the car leasing market shows much lower concentrations on both lessors and lessees, with industrial and financial majors keeping a low profile. In addition, this business excels in the number of contracts made, higher standardisation of financial services, higher liquidity of leased assets, and lower average deal values.

Based on research by the RAEX (Expert RA) rating agency, car leasing was the most resilient segment in the industry during the recession of 2014 and 2015. Due to their high liquidity, vehicles became most sought after among all leased assets as the economy was slowing down. In the past few years, this market has seen both incumbent industry leaders and state-owned companies greatly strengthen their positions, with the latter joining the Top 5 by new business volume.

In 2018, the car leasing market continued growing, fostered by stronger car sales. The y-o-y growth came in at 19%, driven by lower cost of funding on the back of the Bank of Russia's reduction of the key rate and government support programme in transportation segments.

Leasing market segments in 2018: solid growth in car leasing

Top 10 segments by new business, RUB bn



■ 2018 ■ 2017

Source: Expert, based on LC survey data

The car sales data over the past 15 years show an ever increasing potential for the market to return to pre-crisis sales in the mid-term. Prior to 2008, passenger car sales scored a CAGR of over 60%, outpacing many European markets, including Eastern Europe. In 2009, car sales suffered a drastic decline across all segments before hitting a new high in 2012 but showing two times slower CAGR rates. As early as 2017, following four years of decline, the car market was again on the rise, delivering growth of 12% for passenger cars, 17% for light-duty commercial vehicles, and 50% for heavy-duty vehicles, according to AUTOSTAT.

Based on AUTOSTAT data, car sales continued on the rise in 2018. Sales of passenger cars were up by 13.3% against 2017, reaching 1,671.6 cars, light-duty commercial vehicles added 3.2% (112,000 cars), and heavy-duty vehicles saw a 2.7% rise in sales (82,300 cars).

In 2019, PricewaterhouseCoopers expects the car market to expand by 11%. A three-year forecast projects the market's upward trend, which began in 2017, to continue. By 2022, sales of passenger cars in Russia are expected to reach 2.22 m, driven by growing oil prices, economic recovery, stronger investment in production, and new technologies.

Car sales in Russia in 2014-2018, '000 vehicles.



■ Passenger cars
■ LCV and HCV

Source: AUTOSTAT.

EUROPLAN'S POSITION IN THE CAR LEASING MARKET



In 2018, Europlan continued to lead in the car leasing market according to the rankings of leasing companies published by the rating agency "Expert". Europlan is "number one" in key business segments - leasing of passenger cars, HCV, and in Russian car leasing in general. Company's share in the estimated volume of Russian car leasing market is about 15% and is 1.5 times higher than the share of the second and third players in this market.



Car and equipment deals volume in 2018

86.4 bn RUB

Top 10 leasing companies by the volume of new business in 2018

No.	Leasing company	New business volume in car leasing, RUB m	Market share
1	Europalan	66,327	15%
2	VTB Leasing	44,407	10%
3	Sberbank Leasing Group	44,068	10%
4	VEB-Leasing	34,097	8%
5	RESO-Leasing	32,692	7%
6	Alfa Leasing Group	27,583	6%
7	Baltic Leasing Group	27,131	6%
8	Major Leasing	21,882	5%
9	CARCADE Leasing	19,898	4%
10	KAMAZ-LEASING	14,174	3%
Total (over 100 companies)		444,072	100%

Source: Expert, based on LC survey data

Based on experts' mid-term estimates, the Russian car leasing market will most likely be driven by:

- underlying trends in car sales volumes;
- higher leasing penetration as an alternative to corporate vehicle purchases;
- stronger focus on retail and SME clients;

- product bundles offering simplified and operating leasing options, along with turnkey solutions (involving additional services);
- higher concentration and stronger competition for the most promising deals.

STRATEGY AND GROWTH PATHS

On 30 June 2017, the SFI's leasing operations were spun off into JSC Europalan Leasing Company (JSC Europalan LC), a subsidiary with a 100% equity participation of SAFMAR Financial investments.

The new subsidiary will fine-tune its future operations and use its future proceeds to maintain and increase its leasing business volumes, and retain its status of Russia's largest private car leasing company demonstrating high growth rates, operational excellence and financial stability thanks to the advanced credit analysis and risk management systems. The leasing subsidiary will remain focused on small-scale leases targeting large, medium and small businesses.

In line with its long-term strategy, the leasing business will specifically seek to:

- develop financial leasing of motor vehicles as its core product;
- develop support services to assist the client in car fleet operation;
- develop operating lease of passenger cars;
- develop business partnerships;
- improve customer experience;
- meet the rising need for skilled workforce through efficient HR recruitment, training, motivation, retention, assessment and development together with business processes automation;
- improve the quality of risk management system;
- improve accounting and reporting systems;
- diversify debt funding.

SOCIAL POLICY

In its social policy, the company is guided by the principles of transparency and fairness honouring its social responsibilities as required by the applicable laws. The fundamental principles of the social policy are further detailed in the company's Regulation on Social Policy, internal labour regulations, employment contracts and other by-laws governing the relations of the company and its employees. The social policy is part of a higher-level HR policy. Hence, it employs a holistic approach to enhancing both the corporate efficiency and loyalty of each and every employee.

In addition to the statutory social safety nets guaranteed by the government, the company runs the following social programmes:

- additional temporary disability benefits;
- voluntary health insurance;
- personal accident insurance;
- financial aid to employees facing various hardships;

- greetings and gifts to employees to commemorate anniversaries and other significant dates;
- New Year events for employees' children;
- perks for the best employees and seniority benefits; and
- sports and recreation activities, corporate events, PR promotion of significant professional achievements and awards for outstanding performance.

The HR policy seeks to enhance employee loyalty, protect and enforce their rights and social guarantees, and support efficient HR management. Bonuses have been put in place to encourage employees meeting the KPIs or demonstrating outstanding performance. In addition, key executives are entitled to bonuses for their commitment to long-term goals subject to the achievement of business targets confirmed by the annual performance and competency appraisal conducted as per the applicable internal regulations.

FINANCIAL PERFORMANCE**IFRS FINANCIAL HIGHLIGHTS IN THE LEASING SEGMENT^①**

In 2018, Europlan LC delivered solid financial performance and high operating efficiency owing to a higher interest margin coupled with effective operating cost management and a low cost of risk.

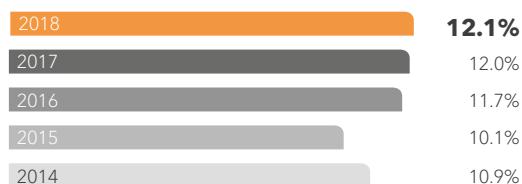
- Leasing portfolio net of reserves expanded by 40% to RUB 56.6 bn;
- Income from operations grew by 26% to RUB 8.6 bn;

- Net profit totalled RUB 3.3 bn, up 16% y-o-y;
- Equity stood at RUB 11.0 bn as at 31 December 2018;
- ROE and ROA as at 31 December 2018 were 32.7% and 6.2%, respectively;
- Debt to equity ratio came in at 4.2x;
- Net interest margin (NIM) totalled 12.1%.

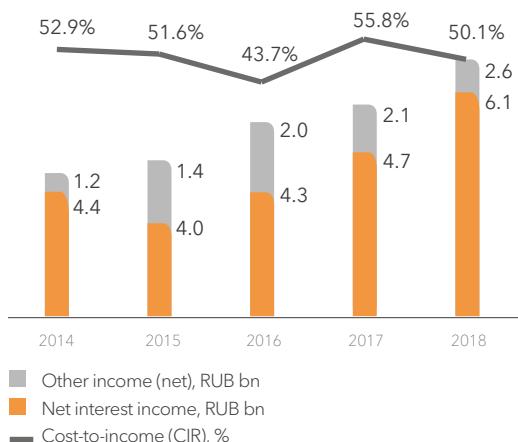
^① The 2017 data stated for the leasing segment and Insurance Company Europlan (for five months of 2017, no longer in the consolidation perimeter starting from 9 June 2017) based on the standalone consolidated financial statements of JSC Europlan Leasing Company under IFRS for 2017.

Europlan also made exceptional progress generating new business volumes. In 2018, new business totalled RUB 86.4 bn, up 19% y-o-y, including passenger cars (RUB 42.8 bn) and heavy-duty vehicles (RUB 35.4 bn).

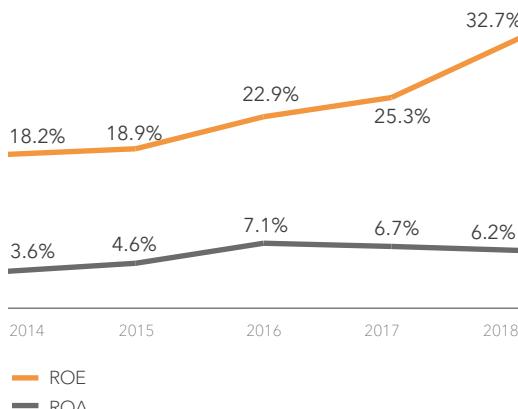
Net interest margin, %



Operating income (RUB bn) and efficiency (%)



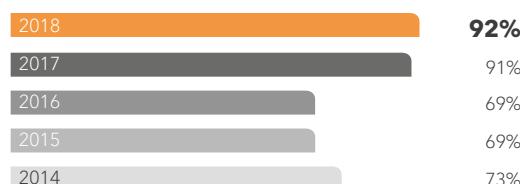
Return on assets and equity, %



LEASING PORTFOLIO

The high-margin leasing portfolio made of net investment in the lease (NIL) accounts for 91.7% of assets in the leasing business. In 2018, NIL rose by 40% y-o-y to RUB 56.6 bn. In addition, IFRS income from leasing operations reached RUB 8.6 bn, up 26% y-o-y. The use of highly liquid assets will ensure the company's financial resilience going forward.

NIL share in leasing assets, %



Leasing portfolio and income performance^①, RUB bn



■ Leasing portfolio
■ Income from leasing operations



92%

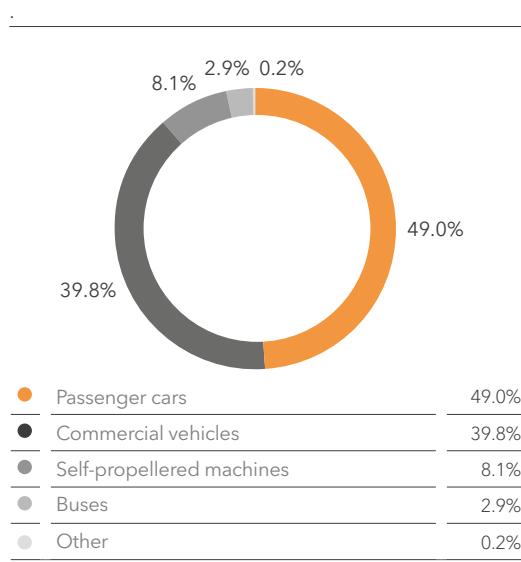
of assets are represented by net investment in the lease (NIL)



^① Leasing portfolio and income performance is shown before changes in the impairment provisions for interest bearing assets of the leasing segment based on the 2014-2018 IFRS financial statements.

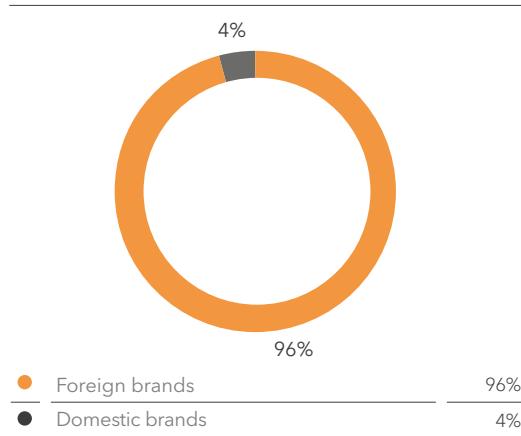
LEASING PORTFOLIO BY TYPE OF LEASED ASSETS IN 2018

In 2018, the leasing portfolio was represented mostly by liquid assets, including passenger cars (49%), commercial vehicles, such as LCV, MCV, HCV and trailers (39.8%), self-propelled machines (8.1%), buses (2.9%), and other assets (0.2%).



PASSENGER CAR LEASING PORTFOLIO BY BRAND IN 2018

The passenger car leasing portfolio is dominated by foreign brands (96%), with domestic brands accounting for ca. 4%.



In 2018, the company maintained the share of repeat customers in its NIL portfolio at the previous levels, which demonstrates the efficiency of our policy aimed at retaining high-quality clients with a strong track record. In 2019, the company intends to keep working on the retention of repeat customers as one of its core priorities.

As at the end of 2018, the leasing portfolio was reasonably diversified to include lessees from different revenue categories, industries and geographies. Small businesses accounted for ca. 82% of the investment portfolio.

KEY RISK FACTORS

The Russian leasing industry has been around for more than 20 years and is thoroughly regulated by domestic laws. From 2011 to 2018, the industry saw no material adverse changes in the leasing legislation. In the current environment, the existing leasing laws may be subject to changes resulting in the licensing of leasing activities or additional requirements from the Bank of Russia. If this happens, the company may face material direct impediments and be forced to reduce the number of new leasing transactions, focusing on the leasing contracts secured by the ownership of leased assets.

THE COMPANY'S PERSPECTIVE ON POTENTIAL MATERIAL CHANGES IN THE INDUSTRY

As Europlan operates in the Russian Federation, the key industry-specific risks are related to its operations in the domestic market.

The most significant risks arising from potential deterioration in the industry (including potential material changes) include:

- risks related to increased competition from state-owned leasing companies;
- risks related to inflation and fluctuations of the Russian rouble against major world currencies;
- risks related to the deterioration of economic environment in Russia and the resulting slowdown in investments; and
- risks related to the Russian banking system/industry.

The potential response

Europian puts special emphasis on risk analysis and assessment developing mechanisms to mitigate the risks. The company's risk management framework is seamlessly integrated into the corporate business processes. To mitigate the risks related to increased competition, including from international majors tapping into the Russian market, the company continuously assesses and compares its key competitive advantages (popular leasing products, support services, branch network and business process automation) against those of current and potential competitors.

The existing leasing portfolio is balanced in such a way that the average maturity and structure of the company's payables exceed those of current lease payments. Hence, due to its strong liquidity position, the company will be able to repay the debt even if it suspends all new business and focuses solely on the existing leasing portfolio. If these risks materialise, the company intends to take all the necessary steps to offset and/or mitigate the adverse impact by pursuing a smart and efficient economic policy in its dedicated segment.

The company does not provide leasing services to cash-strapped and newly incorporated businesses. It employs a centralised risk assessment approach, which offers two analysis options:

- **Analysis based on a verified scoring model.** This procedure is used to assess small businesses. Such clients generally lease passenger cars or heavy-duty vehicles, as well as self-propelled machines.
- **Individual analysis.** This procedure is used to assess big clients. The limit per client is capped at 10% from company's equity

In addition to credit and business risks, all projects are duly analysed to identify property and legal risks. This risk management framework helps to reduce the number of defaults. In case of lessee's default, the company has the right to recover leased assets. All assets recovery cases are resolved by the Moscow Arbitration Court irrespective of the lessee's domicile.

Ratings

Fitch **BB**

In July 2018, Fitch Ratings upgraded the ratings of Europian LC to BB with a stable outlook:

- Long-term local-currency IDR upgraded to BB, stable outlook;
- Long-term foreign-currency IDR upgraded to BB, stable outlook;
- Short-term foreign-currency IDR affirmed at B;
- Senior unsecured debt rating upgraded to BB.

Analytical Credit Rating Agency (ACRA) **A**

In December 2018, Analytical Credit Rating Agency (ACRA) upgraded the rating of Europian LC to A with a stable outlook.

VSK Insurance House

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2018

VSK Insurance House was established in 1992 as a universal insurance company offering services to retail and corporate clients across Russia. The company has consistently ranked among the Top 10 insurance players by gross premium income, leading the way in key segments such as motor insurance and voluntary health insurance (VHI).

VSK provides insurance coverage for over 30 million retail clients and more than 500,000 corporate customers from Russia. The company's regional distribution network has over 500 offices in all Russian regions, which enables VSK to effectively support insurance contracts across the country. In 2018, the company demonstrated solid operating performance, with the aggregated loss ratio below 100% and return on equity of 34.3%.

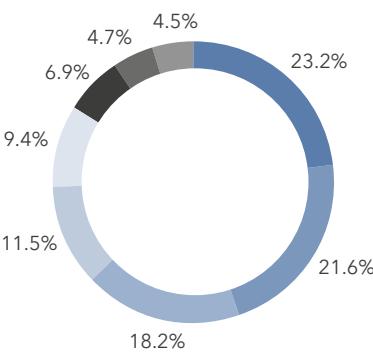


Sergey Tsikalyuk
Chairman
of the Board
of Directors,
VSK Insurance
House



"VSK continues to deliver great financial results. Thanks to the hard work of our highly professional team, for the past several years we have been able to maintain ROE at a market-leading level of over 30%. In 2018, we also implemented major structural changes, which improved our key process management system."

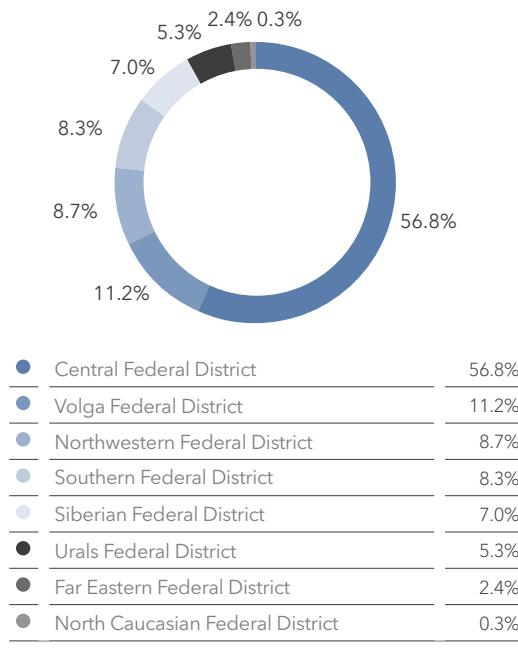
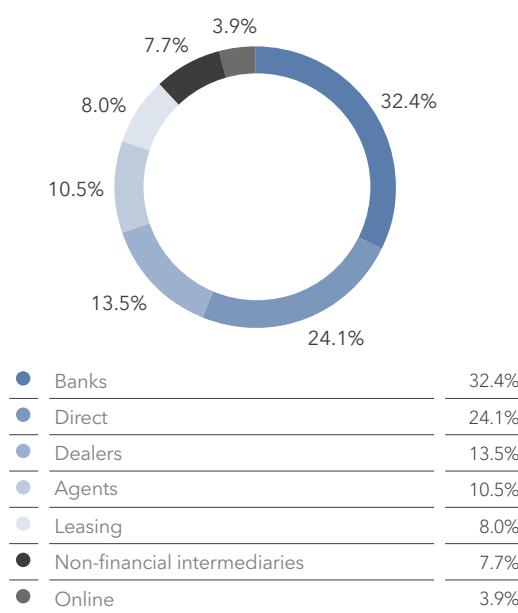
VSK insurance portfolio structure by product, %



Life insurance	23.2%
MHI	21.6%
CMTPL	18.2%
Accidents	11.5%
Corporate property	9.4%
VHI	6.9%
Civil liability	4.7%
Personal property	4.5%

ASSET AT A GLANCE

Owned by SAFMAR Financial investments	49%
Company Management:	
– Chief Executive Officer, Chairman of the Management Board	Oleg Ovsyanitsky
– Chairman of the Board of Directors	Sergey Tsikalyuk
Top 10 insurance company in Russia	
Gross written premiums	RUB 96.3 bn
Employees	7,100
Advanced insurance services	> 200

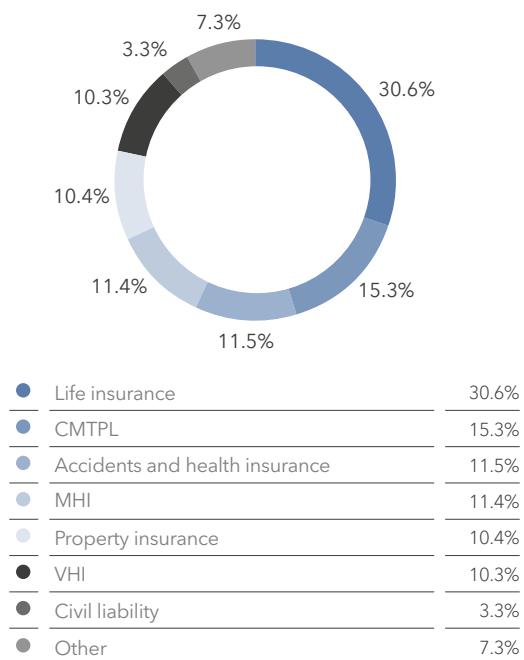
VSK insurance portfolio structure by region, %**VSK insurance portfolio structure by distribution channel, %**

MARKET OVERVIEW

INSURANCE MARKET IN 2018

In 2018, the insurance market saw a slowdown in growth. Gross premium income totalled RUB 1,478.4 bn, up 15.7% y-o-y, delivering the strongest increase over the past six years. Gross premiums mainly came from life insurance (RUB 452.4 bn), CMTPL (RUB 226.0 bn), property insurance (RUB 153.3 bn), motor hull insurance (RUB 168.7 bn), VHI (RUB 151.8 bn), personal accident and health insurance (RUB 169.5 bn) and civil liability insurance (RUB 48.6 bn). However, with life insurance excluded, the insurance market expanded by 8.5%.

Insurance market structure in 2018, %



In absolute terms, the insurance market grew by RUB 201 bn in 2018, with the bulk of that growth coming from life insurance (RUB 120.8 bn). The marked rise in insurance contributions in the segment was driven by strong sales of investment-linked life insurance products as banks were eager to offer this product against the backdrop of deposit rate adjustments. However, aggressive sales of investment life insurance has inherent risks, which commonly include lack of clarity on yields and the clients' poor product understanding at purchase, along with potential legislative changes in the segment. These risks can materialise as early as 2019, shaking up the life insurance segment and the insurance market at large.

In 2018, the key types of insurance saw the following changes^①: CMTPL market grew by 1.8%, life insurance was up by 36.5%, personal property insurance added 12.9%, VHI growth increased to 8.5%, personal accident and health insurance expanded by 39.8%, contributions in the upbeat motor hull segment increased by 3.8%, while in corporate property insurance, the decline was as much as 7.8%.

A tendency that is spanning across multiple industries, digitalisation of business processes now offers its benefits to insurance as well. The market shows major technological advances, above all in online sales. In 2018, the online channel brought 30.6% of CMTPL insurance premiums, compared to a share of less than 12.9% in 2017.

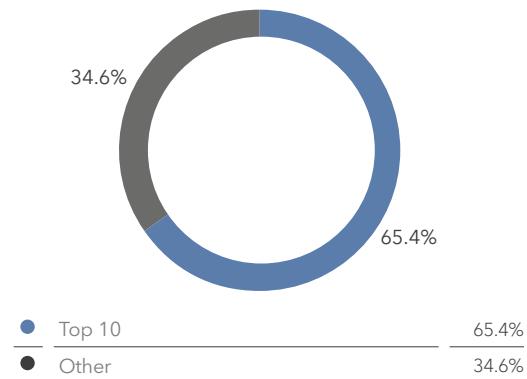
Consolidation is still ongoing in the insurance market, with the number of players consistently shrinking. As at the end of 2018, 196 insurance companies were listed in the Unified State Register of Insurers, with 26 firms pulling out of the market in just one year. The reasons for that include failure to comply with regulatory requirements for insurers' financial stability, bankruptcies, and voluntary withdrawals from the business.

There were no major players among those going out of business, so industry concentration in terms of insurance contributions stayed virtually flat. In 2018, the Top 10 insurers dominated 65.4% of the market.

Number of players in the insurance market

2018	196
2017	222
2016	256
2015	326
2014	404

Insurance market consolidation, %



VSK POSITION IN THE INSURANCE MARKET^①

With a market share of 4.7%, VSK Insurance House has invariably ranked among the Top 10 Russian insurance companies across all key products, including as a Top 5 motor insurer with a share of 7.7% and 10.8% in CMTPL and MHI, respectively.



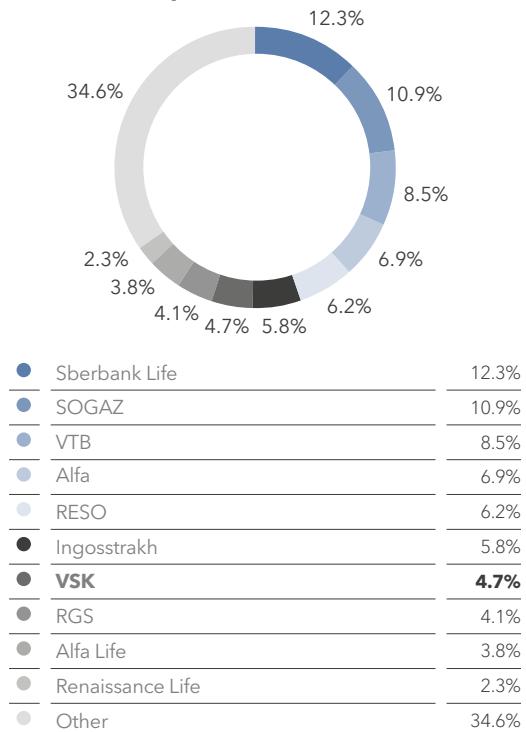
TOP 10

Insurance company in Russia

^① Based on data by the Bank of Russia.

In 2018, VSK ranked 8th by gross premium income in Russia, which was up 7.5% y-o-y.

Insurance companies market share, %



Top 10 insurance players by gross written premiums, RUB bn

Sberbank Life	181.5
SOGAZ	160.5
VTB	125.1
Alfa	101.5
RESO	91.5
Ingosstrakh	86.2
VSK	69.1
RGS	60.8
Alfa Life	56.1
Renaissance Life	34.0

In 2018, the company also demonstrated positive premium growth in all key market segments, In MHI, VSK saw an 8.4% rise in premiums, retaining its 4th position in the ranking of major MHI insurers. In addition, VSK demonstrated impressive growth in non-motor insurance segments. Contributions in investment life insurance went up by 30.5%, with market share adding 0.9 pp to 6.8%. In VHI, contributions expanded by 22.7% and the market share increased from 3.8% to 4.6%. Personal accident and health insurance was up by 40.1%, with market share remaining unchanged at 4.6%. Cargo insurance was another strong performing segment as premium income grew by 89.6% and the company's market share reached 7.9% against a 10.9% market growth rate.



STRATEGY AND GROWTH PATHS



The choice of an investment strategy for VSK Insurance House is underpinned by its goals, which harness asset management tools to:

- ensure solvency and high liquidity of assets;
- secure the recoverability of investments and thereby mitigate multiple associated risks; and
- ensure competitive returns on the investment portfolio.

In 2019, the company will keep working on its core business, relying on proceeds from its operations and expanding its footprint and product line.

Going forward, VSK will seek to:

- become a Top 5 insurer by gross written premiums until 2020;
- develop a robust governance framework and enhance the management team's forecasting and decision-making competencies;
- put in place an efficient framework to manage changes and roll out innovations;
- transform the existing operational model and organisational structure to cut costs and optimise use of the company's resources; and
- create a universal insurance group offering its clients the full range of insurance services.

FINANCIAL PERFORMANCE

IFRS FINANCIAL HIGHLIGHTS^①

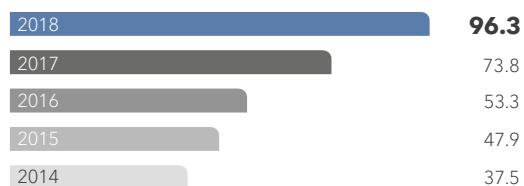
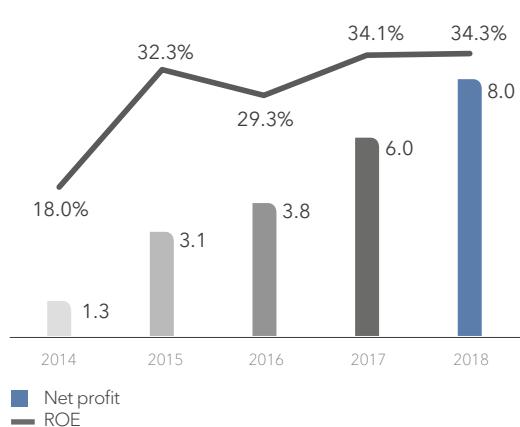
In 2018, VSK Group demonstrated solid growth and an impressive rise across key performance metrics:

- Written insurance premiums totalled RUB 96.3 bn (up 31% vs 2017).
- Insurance payouts stood at RUB 31.3 bn (up 3% vs 2017).
- The portfolio's loss ratio (key quality metric for the insurance portfolio, reinsurance coverage, and tariffs) was 56.5%.
- Net profit totalled RUB 8.0 bn, delivering a record growth of 33% y-o-y.

- ROE came in at 34.3%.
- Investment income less interest expenses on debt securities outstanding totalled RUB 5.3 bn.
- Combined loss ratio stood at 95.1% in 2018.

VSK Insurance House IFRS consolidated annual financial statements for the year ended 31 December 2018 are available at:

 https://www.vsk.ru/about/today/financial_report/

Gross written premiums, RUB bn**Net profit, RUB bn and ROE, %****Insurance payouts, RUB bn****Combined ratio, %****EQUITY**

In 2018, VSK Group's equity exceeded RUB 26.5 bn, or 20% of liabilities on the balance sheet.

The breakdown is as follows:

- Revalued authorised capital under IFRS: RUB 3.9 bn (15% of equity);
- Retained earnings and other reserves: RUB 22.6 bn (85%).

INSURANCE RESERVES

The structure and volume of VSK Group's insurance reserves adequately match its insurance liabilities. The insurance reserves stand at RUB 87.1 bn and make up 65.5% of the liabilities on the balance sheet.

The breakdown is as follows:

- Unearned premium reserve: RUB 38.6 bn (44.3% of insurance reserves);
- Reserves for claims: RUB 18.8 bn (21.5%);
- Reserves for life insurance: RUB 29.7 bn (34.1%).

KEY RISK FACTORS

The key risks affecting the insurance industry include:

- stronger competition, price dumping in certain segments, and the rising role of captive insurance;
- increased role of intermediaries (monopolisation) as core distribution channels: higher agency fees, lower margins;
- market consolidation;
- underwriting risks: risks of deterioration in the quality and structure of insurance portfolio (assessment of risks to be insured, efficiency of the underwriting policy, optimal tariffs, compliance with sales rules, effective pre-contract background checks);
- risks related to third party abuses: loss adjustments (risks of policyholder and third party abuses to benefit from unjustified payouts), support and facilitation of key business processes (risks of internal fraud);
- further sanctions and rising hostility towards Russia: limited access to international reinsurers;
- actuarial risks;
- risks related to compulsory motor third-party liability insurance; and
- amendments to laws and regulations governing the insurance business, including those related to:
 - a. easing or lifting of restrictions applied to foreign insurers and their branches in the Russian Federation;
 - b. review of tariffs and conditions in heavily regulated segments (including compulsory motor third-party liability insurance; compulsory liability insurance of hazardous facility owners; compulsory carrier liability insurance against travel damages to the lives, health and property of passengers; developer liability insurance), which is likely to put pressure on gross premiums and margins;
 - c. instability in the insurance market caused by the bankruptcy of small insurers;
 - d. change in legislation in regard to insurance of developers liability;
 - e. increase of state participation in the authorized capital of insurers, including through the implementation of the sanitation mechanism;
 - f. alternative insurance mutual protection mechanisms.

Risks related to compulsory motor thirdparty liability insurance.

CMTPL remains the most troubled segment of the insurance market. According to the results of the company in 2018 we keep our predictions for improvement and stabilisation of CMTPL indicators on the earned basis. As to average premium and the frequency of loss occurrence show stable dynamics in view of seasonality. Reduction in average loss decreased to 4.7% y-o-y due to changes in the cost of spare parts in the United method of calculating the loss in June 2018.

Risks related to limited access to international reinsurers.

The global reinsurance market is highly concentrated in four key markets (which comprise up to 90% of the total):

- Continental Europe (Munich Re, Swiss Re, Hannover Re, SCOR, etc.);
- London (Lloyds, etc.);
- Bermuda (PartnerRe, etc.);
- USA (Berkshire Hathaway, etc.).

Alternative markets mainly include India, China, South Korea, and oil-rich nations of the Middle East. There is a risk that alternative markets will be lacking capacity required to cover Western sanctions-related risks if the access to the key reinsurance markets is limited.

The Russian National Reinsurance Company (RNRC) was established to provide the reinsurance capacity that the Russian insurance market needs, above all in relation to sanctions risks. However, there are specific risks inherent in the operations of the RNRC:

- RNRC may monopolise the market in a number of risks (defence industry and Western sanctions) in an environment where the reinsured have no markets mechanisms to influence the terms on which reinsurance is offered;
- there may be lack of clarity about the amount of payouts under reinsurance contracts (as a result of potentially insufficient levels of equity and reserves should catastrophe losses materialise);
- RNRC might choose not to reinsure high risks.

Insurance operations are also exposed to **actuarial risks**. Those are assessed and managed based on the actuarial policy, which aims to:

- a. determine tariffs for new insurance products;
- b. monitor portfolio quality across existing insurance products and lines of business;
- c. assess insurance liabilities;
- d. assess the quality of the portfolio's reinsurance coverage;
- e. determine the optimal level of net retention and fair price of reinsurance;
- f. forecast the volume of insurance payouts, insurance reserves and the quality of insurance portfolio for budgeting purposes.

For an insurance company, industry risks also include **investment risks**, i.e. risks related to the investment activities of insurers, above all the process of investing insurance reserves. These risks include:

- asset value risk;
- asset liquidity risk;
- risk of lower yields from investments;
- risk of mismatch between assets and liabilities in terms of liquidity/maturity and currency.

If any of the adverse changes in the industry described above materialise, earnings growth may slow down and even a loss might occur (worst-case scenario). To mitigate the above risks, the company employs the insurance and reinsurance strategies to protect its insurance portfolio.

The insurance strategy aims to diversify the portfolio of insured risks so that it could comprise a wide variety of unrelated risks. It also seeks to maximise diversification for each risk type (i.e. each risk is assigned to a portfolio sufficient to minimise the risk of random deviations from the projected number and gravity of insured events).

The reinsurance strategy serves to partially reinsurance the insured risks in order to limit the insurer's exposure to a specific insured event or its cumulative losses from the simultaneous onset of multiple identical events. Reinsurance is one of the keys to maintaining financial stability. VSK boasts one of Russia's most effective risk reinsurance frameworks. The company carefully analyses reinsurance companies and their financial stability to choose the most reliable partners.

Today, VSK has a system of obligatory reinsurance contracts that effectively protect its portfolio from a wide variety of risks. The contracts are signed with the leading Western reinsurers including Swiss Re ("AA-" by S&P), Hannover Re ("AA-" by S&P), Partner Re ("A+" by S&P), SCOR ("AA-" by S&P), Lloyd's syndicates ("A+" by S&P) and Asian reinsurers including PICC ("Aa3" by Moody's) and Trust Re ("A-" by A.M. Best). As at 31 December 2018, non-resident reinsurers with an S&P rating of "A-" or higher and resident reinsurers with an Expert RA rating of ruA- or higher made up 97% of the company's insurance portfolio. As at 31 December 2018, non-resident reinsurers with an S&P rating of "A-" or higher and resident reinsurers with an Expert RA rating of ruA- or higher made up 97% of the company's reserves.

The efficiency of reinsurance protection is proved by the hefty reinsurance payouts received by the company to cover major losses incurred vis-à-vis its insured and reinsured clients. As at 31 December 2018, the reinsurers' share in the Outstanding Claims Reserve stood at RUB 1.8bn. In 2018, reinsurance payouts exceeded RUB 977m.

VSK also relies on the following **risk mitigants**:

- regular analysis of terms and conditions offered by competitors while maintaining competitiveness of the product range;
- efficiency improvement and cost control;
- business diversification; expansion and development of business segments, product range, geography and sales channels; development of proprietary sales network, insurance portfolio restructuring to ensure diversification or withdrawal from selected types of insurance;
- regulatory compliance, including activities to ensure compliance if licensing requirements are toughened for selected types of insurance operations;
- managing underwriting risks through risk limits and risk assessment, targeted reviews of insurance contracts that are inside the limits, automated and formalised procedure to assess risks and issue/amend policies for mass insurance products; making decisions on complicated risks by a dedicated committee;
- integrated anti-fraud system (when signing, managing and extending insurance contracts and also in loss adjustments);
- managing investment risks by means of a highly formalised process to initiate applications to make investments, consider and make decisions, make investments and ensure centralised record keeping; compliance with regulatory ratios for risk assessment based on approved methodologies; setting limits for legal entities that act as counterparties and issuers; monitoring the financial status of banks, securities issuers and other corporate borrowers.

Ratings

Fitch **BB-**

In January 2019, Fitch Ratings affirmed VSK Insurance House's Insurer Financial Strength (IFS) rating at BB- and removed the rating from Rating Watch Negative (RWN). The removal from RWN reflects the Fitch's opinion that VSK's regulatory risk linked to Urban Group has been eliminated. The strong financial performance of 2018 enables VSK to meet statutory provisioning requirements and manage regulatory risks using internal resources without relying on external support.

Expert RA **ruAA**

In December 2018, the RAEX (Expert RA) rating agency confirmed VSK's credit rating at ruAA, outlook stable. The "under supervision" status was removed.

RAEX described the company's current and adjusted net insurance liquidity ratios as robust. Other rating drivers include solid above-normal solvency margin and excessive spare capital. The company has a high return on equity and moderately strong returns on investments and sales. RAEX also commented on the company's strong reinsurance protection.

Another contributing factor is the company's high quality of assets. The investment portfolio comprises mainly deposits in banks with reliable credit ratings, government securities, and liquid securities of leading corporate issuers. The agency also noted no asset concentration in related parties.

Non-governmental pension funds

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2018

The Group's pension assets are SAFMAR Non-Governmental Pension Fund (NPF), NPF Doverie and NPF Mospromstroy-Fund. NPF Doverie was reorganised in March 2019 by becoming part of NPF SAFMAR.

Established in 1994, NPF SAFMAR (formerly Dobroe Delo, in 2004 was included into Raiffeisenbank Group and renamed NPF Raiffeisen, in 2015, renamed NPF SAFMAR and became part of the Group of the same name) is one of Russia's largest private pension funds. As at 30 September 2018, it ranked fifth in terms of retirement savings under management and in terms of total pension accounts of clients under compulsory pension insurance (CPI) and non-statutory pension plans (NSPP).^①

NPF Doverie became part of SAFMAR Group in 2011. In April 2018, SAFMAR Financial investments took control over NPF Doverie. In March 2019, the fund was reorganised through takeover by NPF SAFMAR.

In December 2018, NPF Mospromstroy-Fund completed its reorganisation of a non-profit pension fund into a joint-stock pension fund and became part of the SAFMAR pension group. SAFMAR Financial investments owns 31.7% of NPF Mospromstroy-Fund (100% of voting shares).



Denis Sivachev
CEO, NPF SAFMAR



"NPF SAFMAR is a Top 5 player in the Russian pension market in terms of assets under management. One of the fund's focus areas in 2018 was boosting the efficiency of client support processes. It also significantly cut the price for servicing client accounts. The reporting year saw extensive work on streamlining pension funds' asset structures, in addition to litigating on behalf of these funds and the insured. While it did put a bit of a damper on retirement savings returns, the portfolio's structure and quality got a significant boost as a result, which will definitely help make it more transparent and profitable. In 2018, the Group started the merger of NPF SAFMAR with the recently acquired NPF Doverie, completing the process in March 2019. This year, the fund's management is going to focus on implementing a balanced investment policy, improving client loyalty, and refining the corporate governance framework."

ASSET AT A GLANCE

Owned by SAFMAR Financial investments ^②	100%
Company Management:	
– Chief Executive Officer	Denis Sivachev
– Chairman of the Board of Directors	Mikail Gutseriev
Assets under management ^③	RUB 288.3 bn
Clients	4.1 m
Employees	252

^① Bank of Russia data as at 30 September 2018. No data on the private pension market for 12 months of 2018 was available from the Bank of Russia as at the date of this Report.

^② Considering the direct and indirect ownership equal to 72.98 and 27.02% respectively.

^③ Consolidated data for NPF SAFMAR, NPF Doverie and NPF Mospromstroy-Fund as at 30 September 2018.

As its core lines of business, NPF SAFMAR and NPF Doverie offer compulsory pension insurance (CPI) services and non-statutory pension plans (NSPP). NPF Mospromstroy-Fund offers NSPP services.

The funds accumulate and invest retirement savings and pension reserves, perform accounting functions, calculate and pay insurance pensions to the insured and non-statutory pensions to NSPP holders, and transfer cash value of insurance pensions and non-statutory pensions to successors of pension holders.

After NPF Doverie was reorganised through takeover by NPF SAFMAR in March 2019, total pension assets under management of the combined fund stood at RUB 287.8 bn^①, including more than RUB 279.4 bn of retirement savings at market value as part of CPI and RUB 8.9 bn of pension reserves as part of corporate and private pension plans.

MARKET OVERVIEW

RUSSIAN PENSION MARKET IN 2018

Key trends of the pension insurance market:

Increased government control over private pension funds and market concentration on government-owned companies and structures.

In 2017, the share of government-related pension funds increased from 24% to 47% of the CPI market. This was driven by the government obtaining control over three large players.

– In August 2017, NPF LUKOIL-GARANT, NPF Elektroenergetiki and NPF RGS, all related to Otkritie Group, were part of the rescue package provided by the Bank of Russia to rehabilitate Otkritie Bank and as a result went under control of the Banking Sector Consolidation Fund (BSCF), a dedicated division created by the Bank of Russia.

In August 2018, the funds merged to form NPF LUKOIL-GARANT, which was renamed NPF Otkritie in October. As a result, the Bank of Russia, which is also a pension market regulator, became a beneficiary of Russia's largest private pension fund with ca. RUB 580 bn in assets under management^②.

- In October 2017, NPF AVTOVAZ agreed on a free transfer of its pension fund of the same name to state-run Rostec, Russia's largest employer in 2018, according to the RBC 500 ranking (headcount of 512,000 people), which already controls NPF Rostvertol and NPF First Industrial Alliance. The deal was closed in May 2018, and in October, the former Avtovaz fund was renamed NPF Rostec.
- In December 2017, Sberbank Private Pension Fund acquired 100% of NPF VNIIEF-GARANT, which was then reorganised through takeover.
- In January 2019, NPF Leningradskoye Adazhio, owned by Cyprus-incorporated WHPA controlled by Sergey Sudarikov of the Region investment company, obtained control over NPF BUDUSHCHEYE, NPF Telecom-Soyuz, NPF Sotsialnoye Razvitie and NPF Obrazovanie.
- In December 2018, NPF Soglasie-OPS and NPF NEFTEGARANT-NPO became part of NPF NEFTEGARANT, currently controlled by Rossum and entities linked to the Rosneft oil company.

Tightened regulatory environment.

- Starting February 2018, mandatory stress testing was introduced for all private pension funds. Stress testing is used to assess financial stability of funds in critical situations, identify sources of potential trouble and avert them.
- The Bank of Russia continued its policy to tighten eligibility requirements for investment assets to make private pension funds diversify and improve their portfolios. The volume and details of mandatory disclosures is growing.
- In March 2018, a new law was signed off, introducing fiduciary liability for private pension funds. Under the law, private pension funds are required to invest in assets with an expected return (risk-weighted) at least equal to that offered by other ways of investing retirement savings and pension reserves available when the decision to acquire the assets was made. Private pension funds must make sure the assets that comprise retirement savings and pension reserves are bought and sold at the best terms (including risk and return ratio) available to the fund as at the date of the transaction. If a breach of the said duty to manage pension reserves or invest retirement savings results in a decline in the

^① The Fund's accounting data as at 30 September 2018..

^② Bank of Russia data as at 30 June 2018.

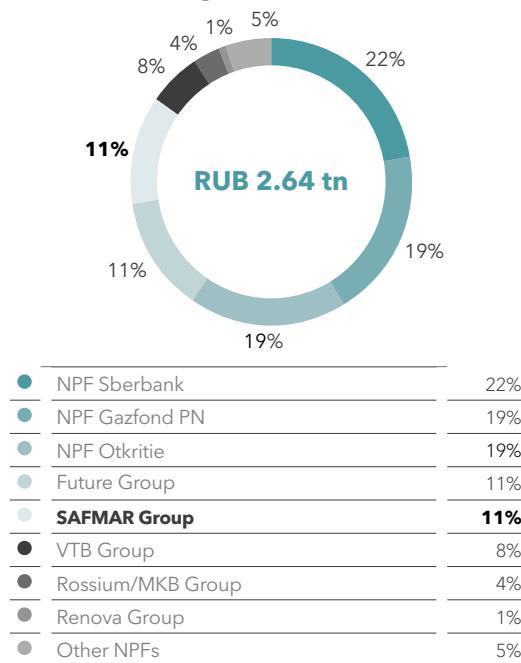
^③ RBC 500 ranking for 2018, <https://www.rbc.ru/rbc500/>.

value of the pension reserves or retirement savings or in the fund failing to receive proceeds from the same that it would have received without the breach taking place (lost income), **the fund shall use its own resources to compensate the decrease in the value of the pension reserves or retirement savings or the lost income amount.** The decision on whether a breach has taken place and on damages is made by the Financial Surveillance Committee of the Bank of Russia based on informed judgement.

Retirement age increase.

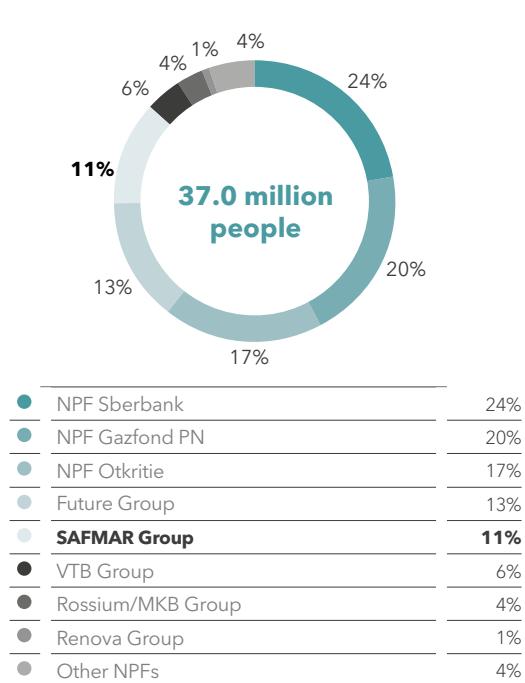
In October 2018, Russian President signed a law that raises retirement age in Russia. Under the new regulation, the increase will be a staged process starting 01 January 2019. Upon reaching the new age thresholds, individuals will be eligible to receiving insurance pension based on old age. By 2023, the age of eligibility will be **60 years for females and 65 years for males** (Federal Law No. 350-FZ of 03 October 2019 On Introducing Changes to Certain Laws of the Russian Federation on Determination and Payment of Pensions). At the same time, under associated laws, the legal age for receiving funded pensions remained unchanged at 55 years for females and 60 years for males.

Retirement savings, %



Source: Bank of Russia data as at 30 September 2018, consolidated as per Groups.

Clients, %



Moratorium on new retirement savings extended until 2021.

The moratorium (full amounts of mandatory insurance contributions are allocated to finance the insurance part of pensions) was first declared a one-off measures in 2014 and has been regularly extended ever since. In December 2018, the moratorium was extended until 2021. With no new contributions coming in, client acquisition and investment income remain the only source of building up retirement savings for private pension funds. The future of the moratorium is increasingly uncertain as the overall economic situation becomes more complicated, budget deficit in the Pension Fund of the Russian Federation increases, population grows older, and the concept of personal pension capital is planned to be introduced.

Stronger competition for new clients.

In 2018, the leader in new acquisitions was VTB Pension Fund due to sales through its parent

bank's offices, followed by Soglasie and Gazfond Retirement Savings. Sberbank Private Pension Fund, the largest player, lost its No. 1 position.

Distribution networks refocusing to promote private pension plans (PPP) as individual and corporate products.

Introduction of the personal pension capital concept.

The Bank of Russia and the Ministry of Finance have proposed to transform the compulsory pension insurance system into the personal pension capital (PPC). The PPC reform is to be launched in 2020-2021.

Under the concept, all pension contributions under CPI (22% in excess of the payroll) will be going to the distribution pool. Apart from CPI contributions, employees are assumed to make deductions from their salaries at a rate selected by themselves to form their PPC.

NPF market consolidation (CPI)

Group/NPF	Retirement savings		Clients	
	RUB '000	Market share	Number of people	Market share
NPF Sberbank	573,475,002	21.8%	8,858,106	24.0%
NPF Gazfond PN	507,206,421	19.3%	6,329,755	17.1%
NPF Otkritie	495,972,238	18.8%	7,418,535	20.1%
SAFMAR Group	279,419,392	10.6%	3,975,678	10.8%
NPF SAFMAR	186,199,417	7.1%	2,164,122	5.9%
NPF Doverie	93,219,975	3.5%	1,811,556	4.9%
Future Group	293,152,855	11.1%	4,708,477	12.7%
NPF Future	281,346,487	10.7%	4,505,778	12.2%
NPF Socialnoe razvitiye	5,781,840	0.2%	85,329	0.2%
NPF Obrazovanie	4,542,293	0.2%	101,045	0.3%
NPF Telekom-Soyuz	1,482,235	0.1%	16,325	0.04%
VTB Group	203,581,011	7.7%	2,343,145	6.3%
NPF VTB	191,273,248	7.3%	2,121,398	5.7%
NPF Magnit	12,307,763	0.5%	221,747	0.6%
Rossum/MKB Group	113,945,737	4.3%	1,481,458	4.0%
NPF Soglasie-OPS	112,851,807	4.3%	1,468,547	4.0%
NPF Soglasie	1,093,930	0.04%	12,911	0.03%
Renova Group	39,444,901	1.5%	428,068	1.2%
NPF Bolshoj	37,457,595	1.4%	410,914	1.1%
NPF Vladimir	1,987,306	0.1%	17,154	0.05%
Other NPFs	128,944,301	4.9%	1,448,997	3.9%
Total	2,635,141,857	100.0%	36,992,219	100.0%

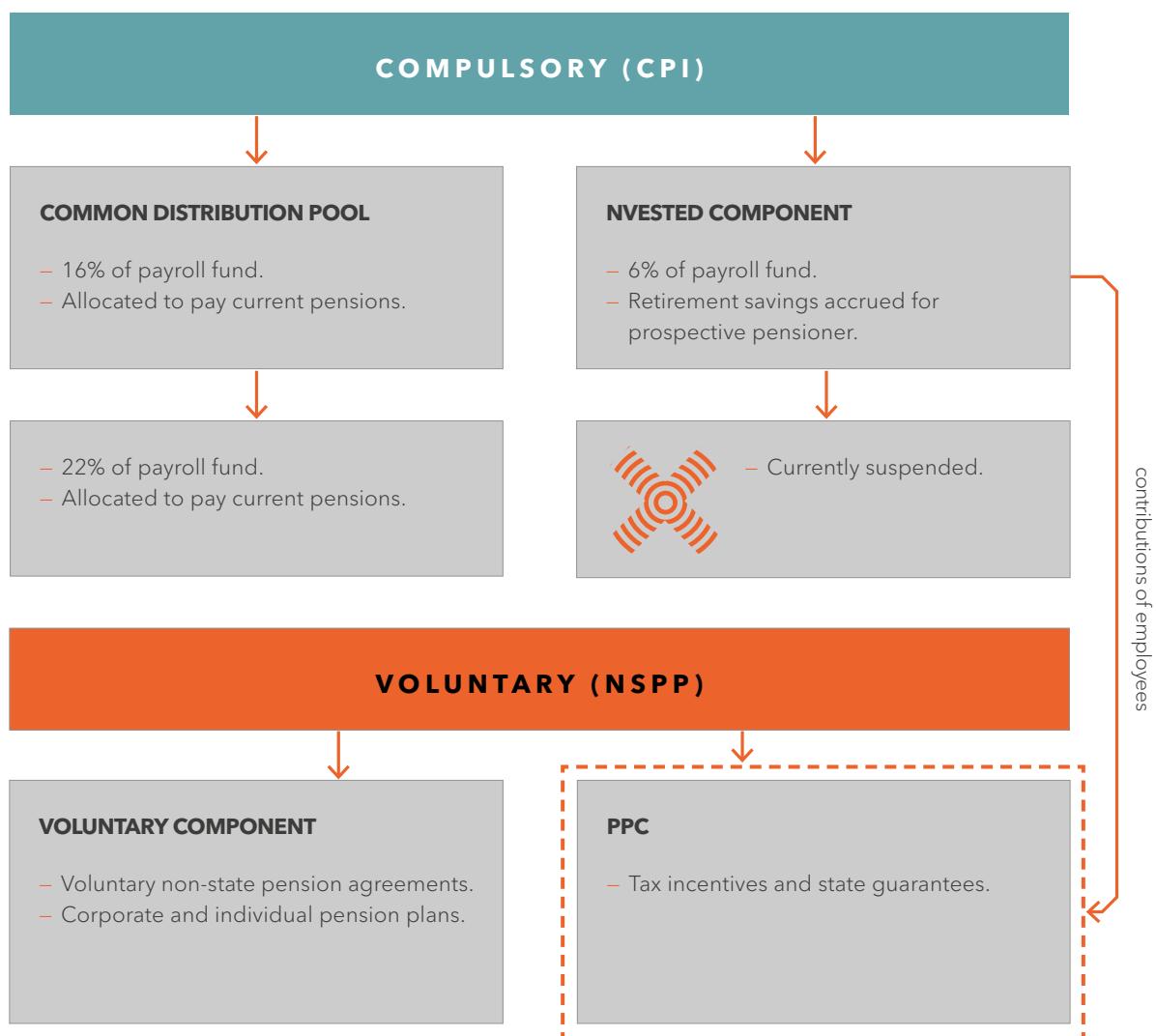
Source: Bank of Russia data as at 30 September 2018.

The key features of the PPC framework are tax benefits and coverage by government guarantees. **When adopted, the PPC concept will increase the inflow of funds to private pension funds and make the industry more attractive for investors.**

Discussions on ways to include individuals in the PPC framework are currently ongoing. As at the report date, no draft law on PPC was published. All the information here is based on media reports and statements made by government officers. There is a possibility that low income individuals will not by default be eligible for the new funded pensions. The threshold income

for eligibility for PPC has not been defined yet. Employees will be covered by PPC by default, with an option to withdraw or suspend their coverage. Also, within the first 18 months after inclusion into the PPC system, individuals will be able to withdraw and have all their contributions refunded. The funded pension contributions will be paid directly by employees from their salaries on a voluntary basis. In addition, according to what is known to date, all PPC savings will remain owned by individuals, which is not the case under the existing mandatory pension insurance, and can be used to finance the treatment of any life-threatening conditions from a list to be made by the Russian Ministry of Health.

The scheme of the individual pension capital system



The new PPC concept will also deal with migration of individuals between private pension funds: all applications to move to a different fund will be handled by a dedicated centralised operator. Also, the new system will allegedly do away with a five-year moratorium on migration that exists today and causes any individual who switches to a new private fund earlier than in a five years' time to lose 100% of the investment return and have only the nominal value of the savings transferred to the new fund. The PPC concept is designed to balance the interests of both individuals and funds: upon migration, pension savings will be transferred in full, with no return

lost, but the five-year period for the transfer remains in effect as a way to enable the fund to orderly complete the investment process and not withdraw any funds immediately. In the first year after PPC goes live, no fees will be charged. After that, the tariff will be set at 1% of the salary, increasing to 2% next year, etc. until it reaches 6%. PPC contributions will be exempt from personal income tax.

According to media reports, VEB.RF, a state-run asset management company, may be appointed to act as a private pension funds for PPC savings of those individuals who chose not to invest anything with private pension funds at all.

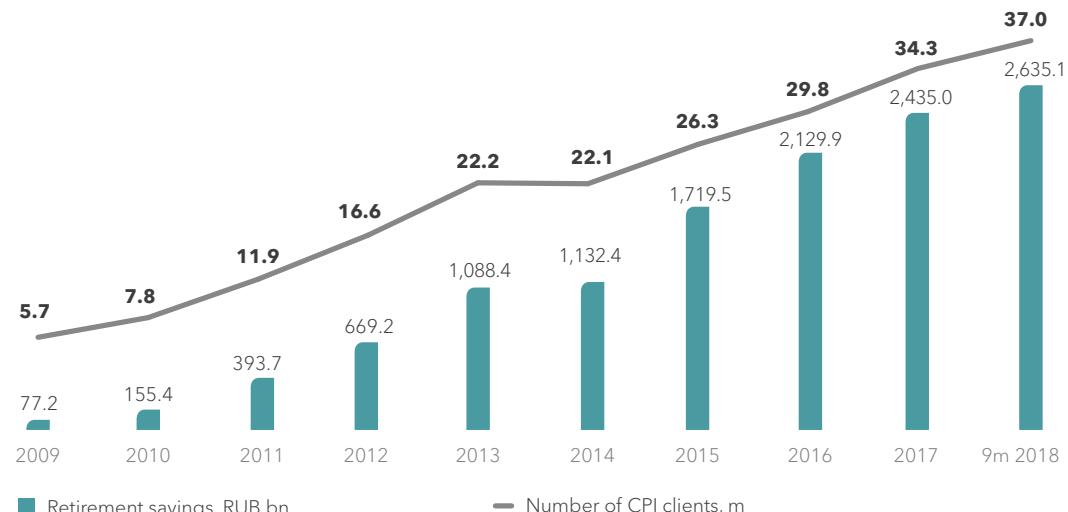
EVOLUTION OF THE PENSION MARKET

CPI MARKET EVOLUTION

In three quarters of 2018, retirement savings in private pension funds at market value increased by RUB 200.1 bn to exceed RUB 2.6 tn.

Total retirement savings at market value and pension reserves under management of private pension funds reached RUB 3.9 tn, while total pension assets in the national economy (including insurance pensions managed by the Pension Fund of the Russian Federation) stood at RUB 5.6 tn.

CPI system historical dynamics



Source: Bank of Russia

Based on preliminary data of the 2018 savings transfer campaign, people filed a total of 1.96 million applications, with 1.6 million of them (81.6%) approved:

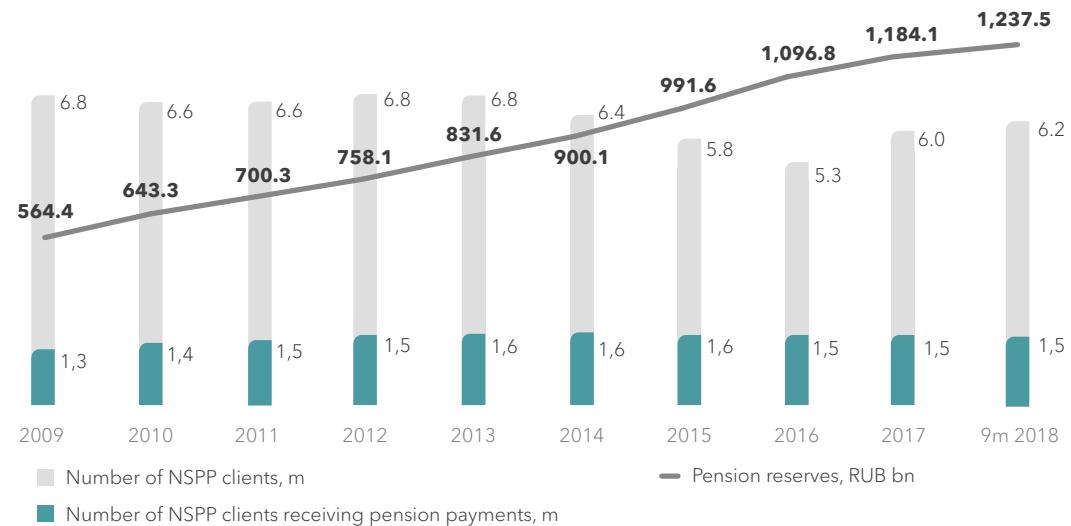
- 587,300 people transferred their savings from the Pension Fund of the Russian Federation to private pension funds (36.7%)
- 936,000 people migrated from one private fund to another (58.5%)
- 74,000 people returned from a private fund to the Pension Fund of the Russian Federation (4.6%)
- 2,700 people chose another asset management company (0.2%)

According to data of the Pension Fund of the Russian Federation, following the 2018 savings transfer campaign, the Pension Fund will transfer RUB 404 bn in retirement savings to private pension funds.

NSPP MARKET EVOLUTION

In three quarters of 2018, total pension reserves held by Russian private pension funds grew by 4.5% to RUB 1.24 tn.^①

NSPP system historical dynamics



Source: Bank of Russia

2018 gave rise to a new trend as people grew more interested in private pension plans (PPP). This trend is driven by several factors, including media discussions about raising the retirement age, more evident deficit in the statutory pension system, and higher financial awareness among people. As a result, NSPP market players register more interest from middle-aged and younger people towards financial instruments that help them save money for the future.

Demand for pension plans might grow after the PPC system is adopted, especially if government guarantees are extended to cover PPC funds and tax benefits are offered to employers and employees participating in the system.

The PPC system will rely on non-statutory – particularly private – pension plans, and large private pension funds have already launched individual pension products and services.

^① Bank of Russia data as at 30 September 2018.

NPF SAFMAR'S POSITION IN THE PENSION MARKET



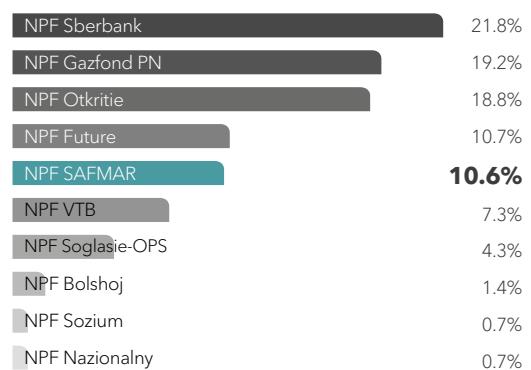
NPF SAFMAR's position in the pension market
(incl. NPF Doverie):¹

The average client account
among the Top 10 NPFs
in the CPI market **No. 3**

Retirement savings under
management **No. 5**

Number of clients **No. 6**

**Market share by retirement savings under
management (9M 2018)**



STRATEGY AND GROWTH PATHS

NPF SAFMAR sees its primary goals in strengthening its pension market position, expanding the client base and developing personal and corporate pension plans to be ready for the PPC system adoption.

The Fund's market position was enhanced by SAFMAR Group's pension funds consolidating into NPF SAFMAR and by the takeover of NPF Doverie completed in March 2018.

Following the transaction, the unified fund has RUB 287.8 bn in assets under management, including RUB 279.4 bn in retirement savings and RUB 8.4 bn in pension reserves. The client base consists of 3.98 million clients under CPI and 81,300 customers under NSPP.^①

NPF SAFMAR aims to expand its operations by pooling resources (capital). Strategic objectives in the NSPP and CPI systems focus on consolidating businesses along with financial and labour resources. By bringing together the experience and potential of the funds currently in restructuring, NPF SAFMAR will benefit from improved expertise, better customer experience, presence in NSPP and CPI, and greater competitive edge in the pension market at large.

NPF SAFMAR's investment policy aims to deliver a consistent upside in investment portfolios by ensuring sufficient returns at limited risks. Under its long-term strategy, the Fund is committed to providing real value creation, i.e. delivering growth ahead of inflation.

In early 2019, NPF SAFMAR completed rebalancing its investment portfolio in order to maximise its protection, reliability and performance. To mitigate risks, the Fund works with a number of reputable asset management companies and has a clear list of appropriate financial instruments and respective limits for its asset management.

In March 2019, the Fund's Board of Directors approved the following strategic priorities for business development: transparency and openness of investments, balanced investment policy, increased customer loyalty, digitalisation, and improved corporate governance. CPI clients and PPP/CPP holders remain the target audience of the Fund.

To achieve its strategic goals, the Fund plans to:

- Streamline sales processes;
- Expand distribution channels;
- Launch cross sales;
- Improve customer experience through centralised, automated and standardised origination, execution and administration of client contracts;
- Develop digital interaction channels following the Fund's connection to the Interdepartmental Electronic Interaction System and introduce a remote client identification system;
- Streamline business processes;
- Efficiently control investment risks;
- Improve accounting and reporting systems.

^① Aggregated statistics by the Bank of Russia as at 30 September 2018.

FINANCIAL PERFORMANCE

IFRS FINANCIAL HIGHLIGHTS

Key indicators of NPF SAFMAR's financial performance as at the end of 2018 are presented below:

- Assets: RUB 192.1 bn as at 31 December 2018 vs RUB 220.7 bn as at 31 December 2017
- Liabilities: RUB 168 bn as at 31 December 2018 vs RUB 196.7 bn as at 31 December 2017
- Equity: RUB 24 bn as at 31 December 2018, flat y-o-y
- Net profit: RUB 0.04 bn
- Loss from investment activities: RUB 17.7 bn

The full version of 2018 IFRS financial statement of NPF SAFMAR is available in the Disclosure section of the corporate website at

 www.npfsafmar.ru

Key indicators of NPF Doverie's financial performance as at the end of 2018 are presented below:

- Assets: RUB 88.9 bn as at 31 December 2018 vs RUB 105 bn as at 31 December 2017
- Liabilities: RUB 81.5 bn as at 31 December 2018 vs RUB 98.8 bn as at 31 December 2017
- Equity: RUB 7.3 bn as at 31 December 2018 vs RUB 6.2 bn as at 31 December 2017
- Net profit: RUB 1.1 bn (+125%)
- Loss from investment activities: RUB 8.1 bn.



INVESTMENT ACTIVITIES

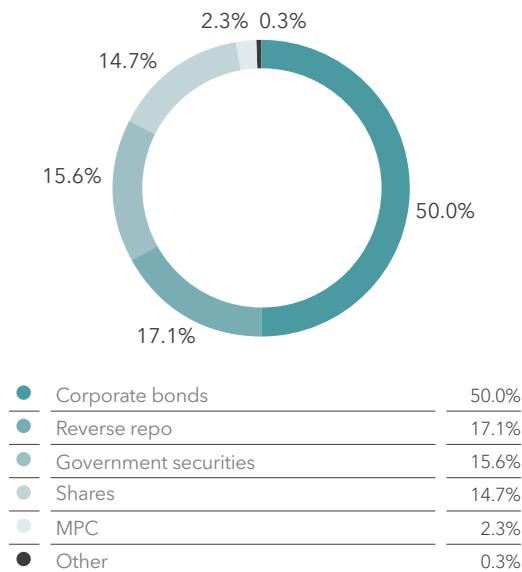
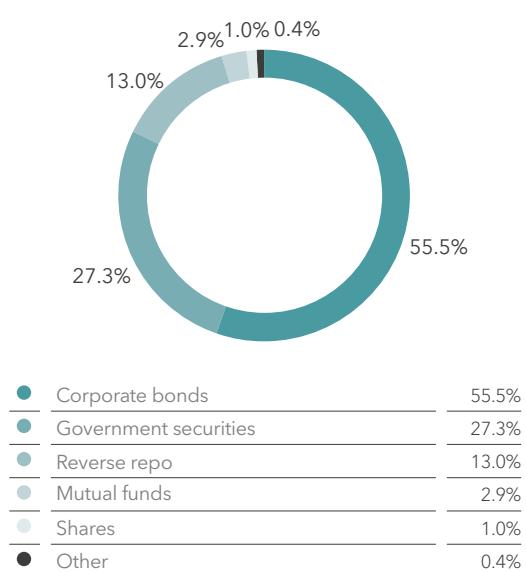
In 2018, retirement savings and pension reserves were invested via six asset management companies selected by the Fund. Their solid expertise in pension assets minimises multiple financial and operational risks associated with pension investments.

Companies managing retirement savings

- Kapital Asset Management
- IQG Asset Management
- Investment Management Company
- REGION Asset Management
- Raiffeisen Capital
- AGANA Asset Management

Companies managing pension reserves

- Raiffeisen Capital
- IQG Asset Management
- Investment Management Company

NPF SAFMAR portfolio structure of retirement savings as of 31.12.2018, %**NPF SAFMAR portfolio structure of pension reserves as of 31.12.2018, %****Return on invested retirement savings and pension reserves accrued to client accounts in 2018.**

In 2018, NPF SAFMAR and NPF Doverie delivered negative returns on invested retirement savings (-11.02% and -10.10%, respectively). These returns are accrued to the retirement savings accounts and do not apply to insurance pensions already paid out by the combined fund.

As regards NSPP, NPF SAFMAR performance varied depending on the investment strategy. Returns accrued to Balanced and Baseline accounts stood at 3.29% and 2.18%, respectively, with no 15% commission fee chargeable on investment income as resolved by the fund. NPF Doverie clients earned zero return in 2018.

According to the Bank of Russia^①, returns of non-governmental pension funds in 2018 came under pressure from a number of factors. The crucial one was a slump in bond prices amid a key rate hike in September 2018,

deterioration in global financial markets and a challenging geopolitical backdrop. Also, last year saw a slide in certain stocks held by NPF SAFMAR and NPF Doverie (merged with NPF SAFMAR in March 2019). Finally, as some corporates failed to honour their obligations to repurchase securities held by the funds, the latter were forced to revalue some of these assets at the year-end.

All revaluated instruments remain on the combined fund's books while the court is considering several claims filed by the fund in connection with defaulted obligations. The fund hopes to win the suits, which will allow it to accrue the proceeds from repurchase (around RUB 20 bn) to its client accounts as investment income in 2019.

Pension funds are long-term investors accumulating retirement savings and pension reserves and paying pensions over decades. It is therefore more reasonable to assess their performance and returns on investment over a longer period of time.

^① http://www.cbr.ru/content/document/file/69744/review_npf_18q3.pdf

Average return on investment of retirement savings accrued to client accounts, %

Fund	2014	2015	2016	2017	2018	Accumulated 2009-2018
NPF SAFMAR	3.7%	8.9%	8.7%	1.8%	(11.0)%	54.6%
NPF European Pension Fund	10.9%	9.7%	-	-	-	-
NPF REGIONFOND	2.3%	9.5%	-	-	-	-
NPF Obrazovanie i Nauka	5.1%	12.8%	-	-	-	-
NPF Doverie	7.3%	9.7%	7.4%	2.9%	(10.1)%	102.3%

Average return on investment of pension reserves accrued to client accounts, %

Fund	2014	2015	2016	2017	2018	Accumulated 2009-2018
NPF SAFMAR	5.6%	10.8%	10.4%	8.7%	2.2%	100.9%
NPF European Pension Fund	6.0%	12.2%	10.8%	-	-	-
NPF REGIONFOND	5.0%	11.6%	9.0%	-	-	-
NPF Obrazovanie i Nauka	7.6%	11.3%	8.5%	-	-	-
NPF Doverie	6.2%	10.6%	10.8%	8.8%	3.0%	116.4%

Source: Fund's accounting data.

Special depository.

Reliability and capital maintenance are the top priorities in the pension industry. Here the Fund is clearly one step ahead of other collective investment vehicles as it employs

additional controls: all investments are monitored on a case-by-case basis along with follow-up control by a special depository, Unified Specialised Depository.

KEY RISK FACTORS

Risks associated with NPF SAFMAR, NPF Doverie (in March 2019, the fund was reorganised through takeover by NPF SAFMAR) and NPF Mospromstroy-Fund. NPF-related risks may affect the financial results (incl. consolidated financial statements) as well as the value of ordinary shares of the Company.

NPF SAFMAR, NPF Doverie and NPF Mospromstroy-Fund do not run operations outside the Russian Federation, therefore the information below refers only to the risks in the Russian Federation.

Key risks monitored and managed by the Fund in its business activities are listed below:

Financial risks:

- Credit risk, or the risk of losses that may be incurred by the Fund if any party (counterparty, issuer, asset management company, lending institution, etc.) fails to duly perform its financial obligations under a contract or another document governing relations between counterparties.
- Market risk, or the risk of losses that may be incurred by the Fund from pension asset exposure to financial instruments due to changes in their market value.
- Concentration risk, or the risk that likelihood or amount of the Fund's losses may grow if securities of any issuer (or a group of related issuers) borrowers and/or counterparties have an excessively large share in the Fund's portfolio and such issuers, borrowers and/or counterparties are affected by negative factors.
- Liquidity risk, or the risk of losses that may be incurred by the Fund, if the Fund or its asset management company fails to duly perform its obligations. The liquidity risk arises when maturities of the Fund's financial assets and financial liabilities are mismatched.

Non-financial risks:

- Operational risks, or the risks of malfunctioning key business processes and accounting procedures, errors caused by IT failures and/or inadequate staff qualifications, substandard corporate practices which result or are likely to result in financial losses or other adverse consequences for the Fund.
- Actuarial risk, or the risk of appreciation of liabilities due to incorrect estimates of future cash flows under the contracts between the Fund and its clients (depositors, pension plan holders and insured persons).

It should be noted that the implementation of these risks can reduce the expected return on equity of the holding company and lead to substantial depreciation of financial investments in NPF's investment portfolio.

There are also potential negative events related to NPF's government regulation to consider. These risks not only can significantly affect the cost of shares but also lead to impossibility to comply some types of pension activities by NPF.

At the same time in the context of ongoing pension reform and lack of state intentions transparency regarding management of pension funds and regulation, it is impossible to mitigate this risk.

To mitigate NPF-specific risks, the Fund thinks it relevant to:

- Develop a portfolio of high-quality assets with a good credit rating in line with the existing investment strategy.
- Limit risks based on a framework of internal limits and key risk indicators.
- Diversify the client base and investment

Financial results

In 2018, SAFMAR Financial Investments demonstrated a robust growth of its key financial indicators, which is a testament to the strategy that the Company pursues. During 2018, the Company also paid RUB 3.4 bn, or RUB 30.3 per share, in dividends to its shareholders for 2017.

OVERVIEW

– **Total income from operations and finance income** for 2018 grew by 55% y-o-y to RUB 21.7 bn. Of this amount, leasing operations made up 37% (RUB 8.5 bn), pension business comprised 30% (RUB 6.6 bn), and insurance contributed 17% (RUB 3.9 bn).

– The holding company's **consolidated net profit** increased by 8%, reaching RUB 8.9 bn. Income from insurance activities is the largest contributor, delivering 34%, or RUB 3.4 bn. The key restraint that put a cap on profit growth was RUB 4 bn goodwill impairment in the pension segment.

– **Consolidated equity** was RUB 83.5 bn as at 31 December 2018 compared to RUB 84.6 bn as at 31 December 2017.

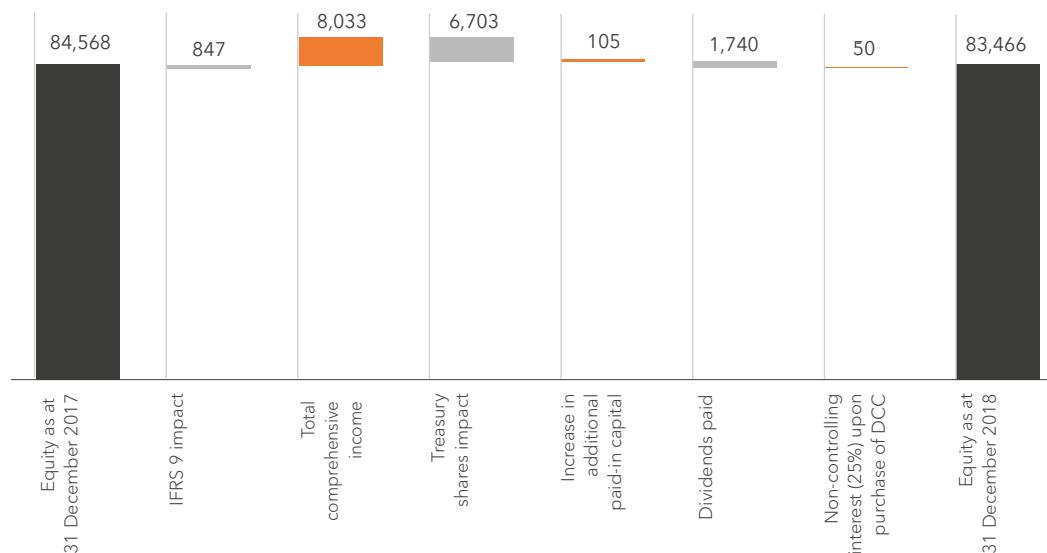
– **ROAE** for 2018 was 10.7%.

– **Borrowings and loans** totalled RUB 32.0 bn in the structure of consolidated liabilities, which is just above 10% of the Company's total liabilities.

IFRS consolidated financial results

RUB m	2018	2017	Change, %
Total income from operations and finance income	21,686	14,027	55%
Profit before tax	10,958	9,755	12%
Net profit attributable to shareholders	8,925	8,264	8%
Earnings per share, RUB	85.92	74.88	15%

Changes in equity, RUB m



As at 31 December 2018, the holding company's assets stood at RUB 383.7 bn compared to RUB 316.9 bn a year earlier. As at 31 December 2018, liabilities totalled RUB 232.4 bn (compared to RUB 215.6 bn as at 31 December 2016). Importantly, the liabilities under compulsory pension insurance (CPI) contracts and non-state pension plans (NSPP), which account for 83% of the holding company's consolidated liabilities, are the funds owned by pension fund clients, and their performance is crucial for the pension business growth.

0 RUB

SFI Debt

ASSETS AND LIABILITIES

As at 31 December 2018, the holding company's assets stood at RUB 383.7 bn compared to RUB 316.9 bn a year earlier. As at 31 December 2018, liabilities totalled RUB 232.4 bn (compared to RUB 215.6 bn as at 31 December 2016). Importantly, the liabilities under compulsory pension insurance (CPI) contracts and non-state pension plans (NSPP), which account for 83% of the holding company's consolidated liabilities, are the funds owned by pension fund clients, and their performance is crucial for the pension business growth.

Borrowings and loans account for just above 10% of the Company's total liabilities. Leasing activities account for 100% of the liabilities, including bonds outstanding.

IFRS consolidated statement of financial position

RUB m	31.12.2018	31.12.2017
ASSETS	383,682	316,917
Cash and cash equivalents	2,799	14,100
Financial instruments at fair value through profit or loss	210,130	165,875
Bank deposits	50	292
Net investment in leases after impairment allowance	56,627	40,551
Loans issued	52,231	44,250
Investments in associates	21,930	18,904
Goodwill	27,439	24,201
Other assets	12,476	8,744
LIABILITIES	300,216	232,349
Obligations under compulsory pension insurance agreements	241,637	187,892
Obligations under non-government pension agreements	7,959	8,148
Borrowings	31,976	21,791
Bonds issued	12,213	9,658
Other liabilities	6,431	4,860
EQUITY	83,466	84,568

RAS PERFORMANCE

According to the annual non-consolidated accounts under the Russian Accounting Standards (RAS), the holding company's net profit for 2018 totalled RUB 534 m.

Net profit under RAS is one of the key indicators that the Company's dividends are

based on. Under the corporate dividend policy approved by the Board of Directors in February 2018, the Company plans to pay out at least 75% of its net profit (or free cash flow for the year if a considerable part of the profit comes from revaluation of assets).

Risk Management

In line with the Company's development plans, a robust risk management framework designed to adequately assess existing risks, prevent risk exposure, and mitigate adverse effects (if risks materialise) is crucial to delivering on the strategic goals.

RISK MANAGEMENT SYSTEM

During the reporting year, the Company exercised a vertically integrated approach to risk management, wherein all key risks of SFI subsidiaries are escalated to the Company's management, and the Boards of Directors of both the Company and the subsidiaries are involved to align risk management with strategic goals.

The Audit Committee of the Board of Directors ensures the reliability and effectiveness of the risk management system based on the Internal Audit's summary reports, which contain inspection results as part of the assessment of existing risks along with risk management recommendations and are quarterly submitted to the committee by SFI and its subsidiaries. The Investment Committee is responsible for daily monitoring of the SFI risks.

KEY ELEMENTS OF THE RISK MANAGEMENT SYSTEM:

- risk identification and analysis;
- risk assessment and prioritisation;
- risk management planning and coordination;
- risk appetite definition;
- monitoring and controls across all kinds of risks and business units.

Reporting covers all kinds of risks so that the SFI management could ensure the information provided for each decision-making level is complete, fair and comparable. This approach supports risk management controls and

decision-making processes top down and bottom up across the holding company depending on risk priority and criticality.

If any of key risks materialises, the management team is committed to taking all possible actions to mitigate the adverse effects. Actions will be addressing specific circumstances on a case-by-case basis.

RISK APPETITE

Risk appetite is an acceptable maximum risk exposure that the Company is willing to take in order to deliver on its strategic goals and objectives.

Risk appetite is articulated for all material risks of the Company and approved by a separate resolution by the Board of Directors. The Company's risk exposure is planned as part of its annual business planning process.

Risk appetite is defined for the strategic planning horizon. Certain risk appetite parameters may be updated during the fiscal year when the economic and/or political environment in the country changes, and when regulatory requirements for the Company's business are altered.

Risk appetite is managed by the Investment Committee.

REVIEW OF KEY RISKS

Key risks that may have a material impact on the Company's performance are indicated below. This annual report does not include

an exhaustive description of all risks that may affect the holding company's financial position and its business. Other risks not listed in the annual report may also be material and have an adverse effect on the Company's performance.

COUNTRY RISK

Description of risk and its potential impact

Political and economic developments, military conflicts, states of emergency, strikes and natural disasters may lead to deterioration of the entire national economy and, hence, the financial health of the Company.

The Company is registered and carries on its core business in the Russian Federation, meaning that the key country-specific risks affecting its operations are Russia-specific. However, in view of the ever increasing globalisation, any material deterioration in the global economic environment may well trigger a severe downfall in the Russian economy and logically result in weaker demand for the products and services of the Company's portfolio assets.

Russia has sovereign investment-grade ratings assigned by the Big Three credit rating agencies. These credit ratings reflect Russia's low public debt and high external liquidity, while also indicating the country's high political risk, which is the key constraint on any rating upgrades. In addition, downward pressure on the ratings has been coming from the declining commodity prices and global capital market challenges.

The socio-economic development in Russia may also be hindered by:

- economic instability;
- political and government instability;
- underdeveloped banking system;
- inferior infrastructure;
- macroeconomic fluctuations.

The said factors may have the following outcomes that are potentially unfavourable for the Company's development:

- immature political, legal and economic institutions;
- imperfect judicial system;
- contradictory ongoing changes to tax and currency control laws;
- strong resistance of the officialdom to efficient reforms;
- high dependence of the economy on the commodity sector and the resulting vulnerability to a potential drop in commodity prices.

Fluctuations of oil and gas prices, changes in the RUB to USD and RUB to EUR exchange rates, and other factors may adversely impact the entire national economy and, consequently, the Company's prospects going forward.

The Russian economy is sensitive to deterioration in the market environment and slowdowns in business activity elsewhere. New financial problems or risks affecting emerging markets may push down foreign investments in Russia. In addition, Russia produces and exports large quantities of crude oil, gas and metals, which makes it highly dependent on commodity prices, with any drop in commodity prices (especially oil and gas prices) likely to slow down the national economic growth. The said factors may considerably limit the Company's access to funding sources in Russia and adversely impact its operations at large.

Russia is a multinational state which includes regions with varying levels of socio-economic development. As a result, internal conflicts in Russia, including those using military force, may not be completely ruled out. On top of that, the Company cannot rule out the risks of a potential state of emergency in the country.

Actions to mitigate the risk

The Company believes that the risk of natural disasters and potential transport disruptions in Russian regions where the Company operates is minimal. Based on its ongoing monitoring of the economic environment in Russia and the impact of external economic drivers and risks in forecasting future operations and financial and economic performance, the Company believes the above-mentioned trends and its implications to be foreseeable. In the upcoming years, analysts project no major deterioration in the situation in Russia that might adversely impact the Company's operations.

POLITICAL RISK

Description of risk and its potential impact

The domestic political landscape is currently stable. Factors that are likely to affect the political environment in the future include a greater concentration of power and a weaker role of democratic institutions, along with a slower reformist policy and higher corruption and bureaucratisation. These factors may potentially limit the holding company's general ability to raise investments.

Geopolitical risks may also destabilise the Russian political system. In particular, Russia's involvement in political and military conflicts in its neighbouring countries and economic and political sanctions against Russian companies, banks and officials compromise the Russian standing on a global scale, which, in turn, may have a negative impact on the country's political stability and investment climate.

Over the past few years, Russia has been involved in economic, political and military conflicts with some post-Soviet member countries in the CIS. As a result, Russia has scaled down its relations with some countries of the international community, including those that have the largest capital markets and are the place of domiciliation for businesses that are heavily investing in Russia. Those businesses may change their investment strategies and decisions in response to the current geopolitical developments based on the assessment of related economic and financial risks. In case of escalation, geopolitical conflicts may adversely impact the Russian and regional economies and spark negative sentiments among investors towards the Russian market, which will undermine the ability of Russian companies generally and the holding company in particular to tap international capital markets. If the existing conflicts intensify or new ones arise, this may push down liquidity, add to a higher volatility, and impair the holding company's securities while also putting constraints on raising debt and equity funding.

Actions to mitigate the risk

The Company continuously monitors the political environment to proactively identify the factors described above. In case of military conflicts, states of emergency, or strikes in Russia, the Company will plan its operations in real time with promptly response to any radical changes.

INDUSTRY RISKS

For more details on industry risks related to the holding company's assets, please see pages
36, 43 and 58.

FINANCIAL RISKS

Description of risk and its potential impact

The Company's operations have inherent financial risks, which depend on changes in the economic and financial environment. Risks that may affect the Company's performance are market, credit, currency and inflationary risks.

Currency risk relates to the impact of FX rate fluctuations on financial position and cash flows.

Credit risk is defined as the risk of loss resulting from contractors' default on, untimely or incomplete performance of contractual financial obligations towards the Company.

Market risk means the risk of loss arising from unfavourable changes in the market value of financial instruments in the Company's trading portfolio and derivatives, and exchange rates of foreign currencies (market risk includes price risk, currency and interest rate risks).

Operational risk is defined as the risk of loss resulting from inconsistency of internal procedures and processes for conducting financial and other transactions with the nature and scale of the Company's business and/or requirements of existing laws and regulations, their violation by employees and/or other persons (as a result of poor qualification, unintended or deliberate acts or omission), disproportion/inadequacy of functional capabilities/ characteristics of the Company's information, technological and other systems and/or their failure/malfunction, as well as the impact of external events.

Actions to mitigate the risk

The key objectives of financial risk management are:

- integrating risk accounting into all aspects of the Company's business to build a crisis-resistant model ensuring healthy growth across all business lines;
- securing a stable return on capital for shareholders and investors;
- maintaining security and availability of shareholders' funds, including when stress scenarios materialise;
- improving competitive advantages by increasing capital management efficiency and the market value of the Company thanks to adequate risk assessment and management.

The Company discloses the impact of financial risks on the financial statements of portfolio companies in quarterly reports.

LEGAL RISKS

Description of risk and its potential impact

The legal risks affecting the Company's operations are the risks related to changes in tax and currency control legislation in Russia, as well as the risks of tougher regulatory requirements of the Bank of Russia with regard to non-credit financial institutions.

While the holding company's exposure to the currency control risk is minimal, its relevance will be greater in case of massive capital flight or weakening of the Russian rouble.

If raising funding in external markets, the Company will be exposed to currency control risks in respective jurisdictions.

Recent developments in Russia suggest that the tax authorities may be taking a more assertive approach in their interpretation and application of tax legislation (including transfer pricing laws), tax audits and additional tax assessments, which is likely to result in claims on previously acceptable transactions or accounting methods. Thus, significant tax amounts, fines and penalties may be assessed.

LEGAL RISKS (CONTINUED)

Amounts of potential claims not filed yet and the probability of an unfavourable outcome cannot be determined. The tax authorities are entitled to conduct on-site audits to verify tax calculations and payments, provided that fiscal periods remain open to such tax audits for three calendar years preceding the year when decision about audit is made. Under certain conditions, financial statements over earlier fiscal periods may also be audited.

Since 2016, the Bank of Russia toughened regulation of non-credit financial institutions by putting in place an improved and more centralised control framework. The insurance and pension lines of business are now subject to the following requirements:

- the establishment of a clear procedure for the insurance organisations to calculate the statutory liabilities to equity (capital) ratio;
- the establishment of a clear procedure to transfer the insurance portfolio in cases where insurance organisations become subject to bankruptcy prevention measures or a licence withdrawal;
- the establishment of a special depository responsible for promptly identifying the insurance organisations' breaches of the applicable laws through daily monitoring of compliance with the requirements for the composition and structure of the assets accepted for coverage of insurance provisions and equity (capital) of an insurer,

and with the rules applying to the investment of insurance provisions and equity (capital) of an insurer;

- introduction of additional requirements to the funds' risk management systems;
- transition to a unified chart of accounts for non-credit financial institutions;
- transition to an electronic reporting form based on the XBRL technical standards in line with the best international reporting practices.

Actions to mitigate the risk

We constantly monitor and analyse proposed projects to amend legislation, as well as Russian legislative and other regulatory requirements, which can affect the Company's operations and financial results. This enables us to quickly adapt our business processes to any changes in the legislative environment, and to operate in full compliance with the current regulatory and legal framework.

STRATEGY RISK**Description of risk and its potential impact**

This risk implies that the Company may face losses due to mistakes or deficiencies in making decisions on its business and development strategy. They may result in a failure to identify or substantiate its key business opportunities, provide the required financial, physical, technological or human resources and take appropriate management decisions that are required to deliver on its strategic objectives and plans.

Actions to mitigate the risk

Short and mid-term planning is in place to ensure the efficient assessment and implementation of strategic decisions, with contributions from respective functions, which seek to analyse the current performance of the Company, set out priority areas, develop strategic plans, and monitor their implementation. In delivering on the Company's established objectives and plans, certain strategies, under the influence of changes in the external and/or internal market environment, in the event deviations of the calculated criteria from estimates are identified in any segment, adjustments in the Company's strategic plans and/or activities can be made.

REPUTATION RISK

Description of risk and its potential impact

Losses arising from negative perceptions of the holding company's financial health, the quality of its services, or the nature of its operations generally.

Actions to mitigate the risk

The holding company and its portfolio businesses take all steps to have a fair view of their financial sustainability, in due time disclose full and reliable information in accordance with the applicable laws of the Russian Federation, along with additional information, including press releases on key events, comments for the media and the investment community, publication of other materials, information and explanations.

On an ongoing basis, we maintain a dialogue with the media, investors, analysts, customers and contractors, government and local authorities, industry associations and other stakeholders.

OTHER RISKS

Risks related to ongoing litigations.

The Company is not currently involved in litigations that may have a considerable adverse impact on its performance. However, in its ordinary course of business the Company may become a party to various legal and tax proceedings or receive claims some of which are related to market evolution and changes in the taxation and regulatory environment in which the Company operates.

As a result, the Company's obligations arising from any potential litigations, other legal proceedings or in connection with other matters may have a significant impact on its financial position, performance or liquidity.

Risks related to inability to extend the licence for a certain type of activity or to use items that are limited in circulation (including natural resources).

The Company's core business from 30 June 2017 to the date of this report is investment activity as a holding company by way of investing in securities of / stakes in business entities for the purpose of owning significant stakes or interests. It is not subject to licensing. The Company is not exposed to risks associated with changes in the requirements for licensing the rights to use items (including natural resources) that are limited in circulation, because it does not possess any of such rights.

Risks related to possible liability for debts of third parties, including subsidiaries.

The Company does not have any liability for the debts of third parties (including its subsidiaries) at the date of reporting. In the Company's opinion, such liability is unlikely to occur as default on obligations by subsidiaries is possible only if their financial position and the situation in their industry deteriorates significantly.

Corporate Responsibility and Charity

The companies of SAFMAR Group pursue socially important long-term projects supporting culture, sports, healthcare, arts, education and spirituality via SAFMAR Charitable Foundation.

These projects mainly aim to support complex personal development of individuals, promote healthy lifestyles, and develop large-scale fitness and sports activities. All programmes of the Fund meet the criteria of transparency, clear articulation of strategy, and consistency in implementation. In the course of its activities, the Fund leverages best Russian charitable practices.

9 areas of charitable activities

55 dedicated charitable programmes

27 Russian regions covered

RUB 2 bn
of dedicated financing

For more details on SAFMAR CF, including its governance bodies, please visit our website at

 www.safmar.ru

GEOGRAPHY OF CHARITABLE PROGRAMMES IN 2018

- Moscow and the Moscow Region
- St. Petersburg and Leningrad Region
- Republic of Udmurtia
- Orenburg Region
- Republic of Khakasia
- Krasnoyarsk Region
- Ulyanovsk Region
- Novosibirsk Region
- Saratov Region
- Krasnodar Territory
- Khanty-Mansiysk Autonomous Region
- Kirov Region
- Samara Region
- Amur Region
- Republic of Chechnya
- Chelyabinsk Region
- Sverdlovsk Region and others.



SAFMAR Charitable Foundation (CF), a non-profit charitable organisation, was established on 16 September 2013 by PJSC RussNeft, which is part of SAFMAR Group and is headed by Mikail Gutseriev, one of most foremost Russian philanthropists.

The Fund is supervised by the Fund Council, the Board of Trustees and the Revision Commission. SAFMAR CF is part of Donors Forum, a non-profit grant-making partnership that unites the largest charitable funds in Russia. The members of Donors Forum strive to bring about a professional charitable community in Russia and promote best charitable practices.

PRINCIPLES OF CHARITABLE ACTIVITIES

The Fund implements its programmes in accordance with the following principles:

- Informational transparency.
- Financial transparency.
- Accountability.
- Targeted aid.
- Expert-based approach.
- Meaningful social impact.

In preparations to launch a charitable programme, the Fund also puts special emphasis on:

– Staged programme implementation.

Careful review and evaluation of a programme pilot helps identify strengths and weaknesses of its concept and administration and estimate costs to achieve targets.

– Partnership.

Large-scale charitable programmes rely on strong support from a wider range of stakeholders. The Fund is open for cooperation and is ready for a dialogue on an equal footing with all target audiences involved.

– Innovative approach.

Development and implementation of new approaches, solutions, and techniques to make a difference by better addressing the needs of charity recipients.



KEY AREAS OF CHARITABLE ACTIVITIES OF SAFMAR CF IN 2018

CULTURE

SAFMAR CF has been supporting vibrant cultural forums in Russia, with stars and talents of international fame among the attendees. It is a sponsor of the Moscow Easter Festival (directed by maestro Valery Gergiev), Winter International Arts Festival in Sochi (organised by the eminent conductor Yuri Bashmet), Knushevitsky International Youth Cello Competition in Saratov, Moscow Transit variety festival (directed by Simon Osiazhvili), and the White Cane festival (with Diana Gurtskaya as the creative director). SAFMAR CF has established long-standing partnerships with the Moscow Conservatory and its Central Music School (College).

The foundation is also committed to supporting arts schools and cultural organisations across Russia. It finances charitable classical music events for both young and adult audiences and helps arts schools purchase costumes, props, and musical instruments for their talented students. All of this promotes cultural education, not to mention the preservation and development of the unique Russian culture and heritage.

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SPORTS

In this domain, SAFMAR CF provides aid for building sports infrastructure, organising competitions, buying sports equipment and gear for young athletes, and promoting youth sports in Russia. The foundation has been sponsoring youth teams in the Samara, Ulyanovsk, Orenburg and other regions. It has launched programmes set to foster mass sports and fitness in the Krasnodar and Krasnoyarsk Territories, Amur Region, Khanty-Mansi Autonomous Area – Yugra, and other places across Russia. One of the most important focus areas for SAFMAR CF is supporting youth hockey in the Republic of Udmurtia.

With its aid, the foundation helps preserve the health of young generations and promote healthy lifestyles.

HEATHCARE

SAFMAR CF works with both major and minor healthcare providers, including rural hospitals across Russia. It helps them purchase ambulances, state-of-the-art medical equipment and pharmaceuticals, publish medical monographs and run patient schools.

In 2018, the rehabilitation facility intended for children with disabilities that the foundation helped build opened in the Republic of Udmurtia.





During the year, the centre admitted around 1,600 disabled patients (6 months to 18 years old) for comprehensive rehabilitation.

Its programmes are designed to enhance facilities and resources of healthcare providers and make high-quality healthcare affordable. Through its aid, SAFMAR CF helps Russian healthcare professionals save hundreds of lives.

MUSEUMS

The foundation runs a number of significant museum projects. One of its long-standing partners is the Jewish Museum and Tolerance Centre. The cooperation is focused on two areas – unique art exhibitions and the Outside Readings, literary evenings where prominent Russian film and stage actors read classics to the audience. Among the many who have already performed at Outside Readings are Darya Moroz, Yelizavjeta Boyarskaya, Svetlana Kamynina, Vera Alentova and Aleksandr Filippenko.

For a number of years, the museum has been hosting a series of landmark annual exhibition events, each proving a cultural sensation in Moscow. In 2018, the foundation delighted audiences with exhibitions such as Modernist Documentary: the Photography of Leon Levinstein; Hallways. Seven Worlds of Vysotsky; and Isaac Levitan and Cinematography.

Through these programmes, SAFMAR CF contributes to cultural education and solidifies the system of humanistic values.

EDUCATION

SAFMAR CF supports a wide range of Russian educational institutions, including such majors as Lomonosov Moscow State University, the New Economic School, Gubkin Russian State University of Oil and Gas, and Gutseriev Oil and Gas Institute. The foundation runs joint initiatives with regional education providers, including secondary schools, gymnasiums and pre-school institutions. Its donations have been used to repair buildings, buy computers, textbooks and library stock, and to promote children's art projects.

The foundation has contributed to enhancing facilities and resources of educational institutions, improving the education process, and promoting a friendly training environment to nurture talent.



CHURCHES

SAFMAR CF has been involved in reviving holy sites, building and restoring churches, mosques and synagogues. In 2018, its donations helped build Sabbas of Storozhi's Church in Moscow and restore the Holy Trinity temple in the village of Bolshaya Ucha, Udmurtia, as well as support Saint Pantaleon's Church in the village of Karakulino, Udmurtia, Our Lady of Kazan Church in the village of Ugut, Tyumen Region, Saints Cosmas and Damian's Church in the village of Aleksandrovka, Orenburg Region, a mosque in the town of Raduzhny, Khanty-Mansi Autonomous Region - Yugra, etc. Such support is essential to churches, as many of them are of great architectural value and therefore require the utmost care and top restoration talent.

SPIRITUAL VALUES

SAFMAR CF runs a number of projects and programmes to support cultural and educational activities, help preserve the system of core ethical values, and bolster tolerance and compassion. It has been actively working with non-profit, religious and mentoring organisations, such as the Religious Board of Muslims of the Russian Federation and the Moscow Jewish Community Centre.

The foundation has been sponsoring international exhibitions, contests and events, including those aimed at instilling ethical and patriotic values in younger generations. Another important focus area for SAFMAR CF is supporting publishers to reanimate and popularise the reading culture. It aids in publishing socio-cultural and literary and art magazines (including children's), as well as fiction, with a view to providing these to schools, libraries and non-governmental organisations free of charge.

TALENTED YOUTH

The foundation supports talented young people, promoting various creative initiatives for the youth. For a number of years, it has been sponsoring creative sessions for gifted children, including disabled ones, at Rovesnik, a children's camp in Saratov. In addition, SAFMAR CF has launched a project to organise thematic sessions for orphans in the Moscow Region.

As a sponsor of the Giant, a children's pop choir, and the Dynamic Kids, a Moscow-based youth musical ensemble, the foundation helps procure stage costumes, record new songs, arrange vibrant performances and participate in international music contests. SAFMAR CF has been providing aid to regional clubs for the young, including scientific and technological ones. Innovative methodologies, dedicated master classes, contests, and professionals sharing their knowledge - all this brings children closer to the world of culture and arts and motivates them to reach for the stars.

AID TO PEOPLE IN NEED

Providing aid to disadvantaged social groups is a priority for SAFMAR CF.

It implements various projects with a focus on the social adaptation and career counselling for young people and disabled children in orphanages and boarding schools. The foundation buys them clothes, computers, appliances, art and craft supplies, stationery and much more, plus arranges trips to theatres and museums.

In addition, SAFMAR CF volunteers participate in various cultural, social and other events at orphanages under the foundation's patronage. At each New Year's Eve, SAFMAR Charitable Foundation holds the Wish Upon a New Year Tree event, as well as a series of holiday morning performances for children deprived of parental care. In 2018, more than 240 kids (over half of them with developmental disabilities) benefited from these initiatives and received presents that had been purchased with the help of SAFMAR Group and with support from SAFMAR CF.





The foundation also helped provide severely disabled children with pharmaceuticals and rehabilitation equipment they need, including so-called artificial kidneys. SAFMAR CF keeps supporting disabled children diagnosed with cystic fibrosis, autism, cerebral palsy, down syndrome, and other diseases. Its donations have been used to publish special textbooks and other educational literature for visually impaired children across Russia.

SPECIAL PROJECTS

In this domain, SAFMAR CF has been rolling out a wide range of relevant initiatives covering various facets of social life. In a big effort to preserve and develop the national cultural and historic traditions and the culture of cherishing one's native land, the foundation has been sponsoring vibrant cultural and historical forums, environmental contests, festivals, and traditional Russian celebrations.

SAFMAR CF is also focused on supporting the elderly, including World War II veterans. On top of that, it is committed to strengthening the link between generations and nurturing patriotic feelings and love for their country among young people.

Corporate Governance

CORPORATE GOVERNANCE FRAMEWORK

In the course of its operations, the Company relies on the principles of corporate conduct set out in the Code of Corporate Governance, which was approved on 21 March 2014 by the Board of Directors of the Bank of Russia and based on the applicable laws of the Russian Federation.

The Company followed the recommendations set forth by the Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016 On Disclosure of Compliance with the Principles and Recommendations of the Code of Corporate Governance in Annual Reports by Public Joint Stock Companies as the methodology to assess its compliance with the principles of corporate governance set out in the Bank of Russia's Code of Corporate Governance. The Company analysed the compliance of its Charter and internal documents as well as corporate governance practices with the principles and recommendations of the Bank of Russia's Code of Corporate Governance. The assessment results are described in the Corporate Governance Code compliance report^①.

Since the Company's ordinary registered shares are included in the Level 1 (A1) Quotation List of the Moscow Exchange, the Company also abides by the principles of corporate governance and the independence criteria for the members of the Board of Directors which are required to be observed by the Listing Rules of the Moscow Exchange. In order to maintain its shares in the Level 1 (A1) Quotation List, the Company submits quarterly compliance reports to the Moscow Exchange.

CORPORATE GOVERNANCE MAP

In accordance with its Charter, PJSC SAFMAR Financial investments had the following governance bodies:

- General Meeting of Shareholders;
- Board of Directors;
- Management Board^②;
- Chief Executive Officer – CEO (sole executive body).

Details of powers of governance bodies are described in PJSC SAFMAR Financial investments Charter and Company's quarterly reports.

Company's Charter and Q4 2018 quarterly report are available on the disclosure web sites at:

 safmarinvest.ru

www.e-disclosure.ru/portal/files.aspx?id=11328&type=1

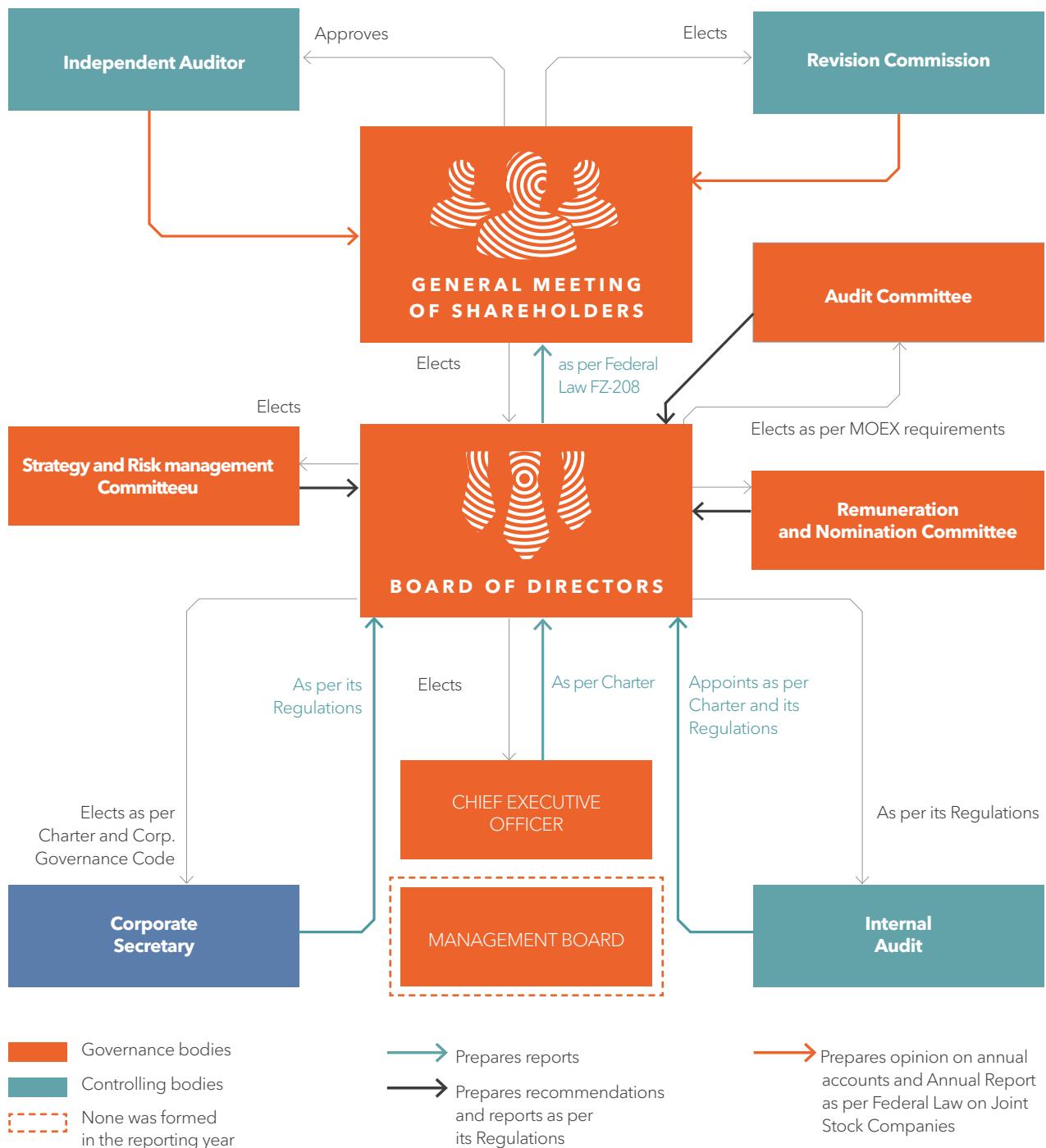
www.e-disclosure.ru/portal/files.aspx?id=11328&type=5

^① To view the Company's Corporate Governance Code compliance report, please see Appendix 1 to this Report.

^② In the reporting year, the Management Board was not formed.

CORPORATE GOVERNANCE STRUCTURE

OF PJSC SAFMAR FINANCIAL INVESTMENTS AS AT 31 DECEMBER 2018^①



GENERAL MEETING OF SHAREHOLDERS

UNDERLYING PRINCIPLES

Pursuant to the Federal Law On Joint Stock Companies and the Charter of the Company, the General Meeting of Shareholders is the Company's supreme governance body. The activities and the remit of the General Meeting of Shareholders are governed by the joint stock company laws of the Russian Federation, Charter provisions, and the Regulation on the Procedure for Convocation and Holding of General Meetings of Shareholders of SAFMAR Financial investments (version 2). Notices to shareholders on the upcoming meeting include voting ballots.

Materials for the **General Meeting of Shareholders** are published at

 www.safmarinvest.ru

 www.e-disclosure.ru/portal/files.aspx?id=11328&type=13

THE REMIT OF THE GENERAL MEETING OF SHAREHOLDERS INCLUDES THE FOLLOWING:

- amending and supplementing the Company's Charter and approving the revised Charter (except as provided in Article 12 of the Federal Law On Joint Stock Companies);
- reorganising the Company;
- liquidating the Company, appointing the liquidation commission and approving the interim and final liquidation balance sheets;
- determining the number of the Company's directors, electing them and terminating their powers early;

- resolving on the delegation of powers vested in the Company's sole executive body to a business entity (management company) or a sole proprietor (manager) under a contract; resolving on the early termination of the powers of the management company or the manager;
- determining the number, nominal value, type (class) of the authorised shares and rights they confer;
- reducing the Company's authorised capital through reducing the par value of shares, through the Company's purchase of part of the shares to reduce their total number, and through redemption of the acquired or repurchased shares;
- increasing the Company's authorised capital by raising the par value of its shares;
- increasing the Company's authorised capital by offering additional shares through a private subscription;
- increasing the Company's authorised capital through an open subscription for ordinary shares comprising more than 25% of the outstanding ordinary shares;
- offering, through an open subscription, issue-grade securities which may be converted into ordinary shares comprising more than 25% of the outstanding ordinary shares;
- increasing the Company's authorised capital by offering additional shares funded out of the Company's assets;
- offering the Company's convertible issue-grade securities through a private subscription;
- electing members of the Company's Revision Commission (Revision Officer) and terminating their powers early;

- approving the Company's Auditor in charge of the Company's accounts (financial statements) under the Russian Accounting Standards (RAS);
- approving annual reports and annual accounting (financial) statements, as well as distribution of the Company's profits, including payment (declaration) of dividends, and losses for the reporting year;
- establishing the procedure for the General Meeting of Shareholders;
- splitting and consolidating the Company's shares;
- paying (declaring) dividends following the results of the first quarter, first half, and first nine months of the reporting year;
- resolving on granting consent to or subsequent approval of transactions in cases stipulated by Article 83 of the Federal Law On Joint Stock Companies (except as provided for in Clause 2 of Article 81 of the Federal Law On Joint Stock Companies);
- resolving on reimbursing the persons or bodies initiating an Extraordinary General Meeting of Shareholders, at the Company's expense, for the costs of preparing and holding thereof;
- approving internal regulations governing the Company's bodies, namely Regulations on the General Meeting of Shareholders, on the Board of Directors, on the Revision Commission (Revision Officer), and on the executive bodies of the Company;
- resolving on granting consent to or subsequent approval of major transactions in cases stipulated by Article 79 of the Federal Law On Joint Stock Companies (except as provided for in Clause 3 of Article 78 of the Federal Law On Joint Stock Companies);
- repurchasing the Company's outstanding shares as prescribed by the Federal Law On Joint Stock Companies;
- resolving on the Company's participation in financial and industrial groups, associations and other unions of business entities;
- resolving on filing for delisting of the Company's shares and/or issue-grade securities convertible into shares;
- resolving on remunerating the Revision Committee members (Revision Officer) and/or compensating the expenses incurred by them in discharge of their duties during their term in office, as well as on the amount of such remunerations and compensations;
- resolving on remunerating the Board of Directors members (Revision Officer) and/or compensating the expenses related to their functions as members of the Board of Directors during their term in office, as well as on the amount of such remunerations and compensations;
- resolving on other matters prescribed by the Federal Law On Joint Stock Companies.

PROTECTION OF SHAREHOLDER RIGHTS

The Company is committed to ensuring full protection of shareholder rights to take part in the management of the Company: their rights to engage in the work of the General Meeting of Shareholders and to cast their votes on the General Meeting's agenda items, as well as their right to receive profit through dividends.

In order to safeguard the shareholder right to participate in the General Meeting of Shareholders, all materials relevant to the agenda of the General Meeting are circulated to shareholders through the Company's Registrar and National Settlement Depository pursuant to the Company's Charter and within the time period specified in the laws and the Company's Charter. Shareholders can fill out the ballot and mail it at the address specified therein to SAFMAR Financial investments before the General Meeting. The ballots of such shareholders are counted during the tally of the votes. Shareholders can also vote online if their depository provides this service.

Each shareholder also has the right to, personally or by proxy, participate in the General Meetings and to vote on the agenda directly at the General Meeting (if the meeting is held in the form of joint presence). The outcome of the vote on the agenda items of the General Meeting held in the form of joint presence is announced at the meeting before its closure. The voting results are also available on the Company's web site.

PROVIDING SHAREHOLDERS WITH THE COMPANY'S DOCUMENTS

The right to access documents that SAFMAR Financial investments is required to provide under the Federal Law On Joint Stock Companies is an important guarantee for the shareholder right to participate in managing the Company. In order to exercise this right, shareholders need to request access to the relevant documents in writing, whereupon the time of granting access will be agreed and the shareholders will be provided the respective documents. If shareholders need copies of the requested documents, they reimburse the cost thereof at RUB 5 per page.

PROPOSING ITEMS FOR THE GENERAL MEETING AGENDA AND NOMINATING CANDIDATES TO THE COMPANY'S MANAGEMENT BODIES

Persons with substantial shareholdings (at least 2% of the authorised capital) may propose items for the General Meeting agenda and nominate candidates to the Company's management and control bodies. Shareholders that hold 10% or more of the Company's voting shares also have the right to request convocation of an Extraordinary General Meeting of Shareholders.

Proposed items for the agenda of the Annual General Meeting of Shareholders, together with any supplementary materials which are required under the Regulation on the Procedure for Convocation and Holding of General Meetings of Shareholders of SAFMAR Financial investments (version 2) and other internal documents of the Company are submitted in writing within 60 days after the end of the fiscal year.

Should election of the Board of Directors be on the Extraordinary General Meeting's agenda, persons that hold a sufficient shareholding shall have the right to propose nominees to the Board. Written proposals should be submitted to the Company no later than 30 days prior to the date of the respective meeting. The nominees to the management and control bodies of the Company proposed by shareholders are first reviewed by the Remuneration and Nomination Committee of the Board of Directors of SAFMAR Financial investments.

To observe the shareholder right to participate in profits through dividends, the Company declares the amount of the dividends recommended by the Board of Directors in advance, as well as the record date for the payout. This gives shareholders the opportunity to manage their shares based on the expected dividend payout.

GENERAL MEETINGS OF SHAREHOLDERS HELD IN 2018

Type	Date	Agenda	Approved decisions (links to disclosed materials)
Extraordinary	23 March 2018	1. Securing an approval for an interested-party transaction..	 https://www.e-disclosure.ru/portal/event.aspx?EventId=uhmKlQpi30mXa6gr-AEAh3g-B-B
Annual	28 May 2018	1. Approval of SAFMAR Financial investments' 2017 Annual Report and 2017 annual accounts (financial statements). 2. Distribution of profits, including dividend payout (declaration), and losses for 2017. 3. Election of members of the Board of Directors. 4. Election of the Revision Commission. 5. Approval of the Company's Auditor in charge of the Company's 2018 accounts (financial statements) under the Russian Accounting Standards (RAS).	 https://www.e-disclosure.ru/portal/event.aspx?EventId=bz-ApYHjKmE2nkt-AupUDd8Q-B-B
Extraordinary	19 October 2018	1. Approval of an interested-party transaction. 2. Approval of the new version of the Regulation on the Board of Directors (version 4). 3. Approval of the new version of the Regulation on the Remuneration and Compensation for Members of the Board of Directors (version 3).	 https://www.e-disclosure.ru/portal/event.aspx?EventId=fp73nubHw0O7Sx2-AYbc7MQ-B-B

BOARD OF DIRECTORS

The Board of Directors is the main body of the Company's corporate governance framework. The key goals of the Board of Directors are long-term growth in the Company's assets value, protection of rights and interests of the shareholders and providing complete, accurate and timely public information about the Company. The Board of Directors is responsible for passing resolutions on top priority matters for the Company: setting key goals and defining the development strategy, making decisions on the general organisational structure, approving transactions, etc.

The full list of the Board of Directors' responsibilities is specified in the Charter and the Q4 2018 quarterly report, which are available on the disclosure websites at:



safmarinvest.ru

www.e-disclosure.ru/portal/files.aspx?id=11328&type=1

www.e-disclosure.ru/portal/files.aspx?id=11328&type=5

BOARD OF DIRECTORS COMPOSITIONS IN EFFECT SINCE 1 JANUARY 2018 AND CHANGES INTRODUCED BY THE GENERAL MEETING RESOLUTIONS

Composition from 01 January 2018 (elected by the resolution of the General Meeting dated 29 November 2017) to the Annual General Meeting held on 28 May 2018:

- **Oleg Andriyankin**
- **Oleg Vyugin**
- **Andrey Gorokhov**
- **Alla Gryaznova**
- **Mikail Gutseriev**
- **Said Gutseriev**
- **Anton Zhuchenko**
- **Maxim Kosolapov**
- **Avet Mirakyan**
- **Ilya Mikhaylenko**
- **Alexander Myakenky**
- **Sergey Nazarov**
- **Olga Prozorovskaya**
- **Bilan Uzhakhov**
- **Sergey Tsikalyuk**

Details of 5 years' track record of members of the Board of Directors are described in SFI's Q4 2017 quarterly report, which is disclosed on the internet on the disclosure websites at:



www.e-disclosure.ru

www.safmarinvest.ru

MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors is a balanced and professional body that ensures sustained long-term growth of the Company. The current composition of the Board of Directors of SAFMAR Financial investments was established pursuant to the resolution of the Annual General Meeting of Shareholders dated 28 May 2018 and includes 11 members:

- **Oleg Andriyankin**
- **Oleg Vyugin** -Chairman of the Board of Directors
- **Alla Gryaznova**
- **Mikail Gutseriev**
- **Said Gutseriev**
- **Avet Mirakyan**
- **Ilya Mikhaylenko**
- **Alexander Myakenky**
- **Sergey Nazarov**
- **Bilan Uzhakhov**
- **Sergey Tsikalyuk**

As resolved by the Annual General Meeting of Shareholders, Andrey Gorokhov, Anton Zhuchenko, Maxim Kosolapov and Olga Prozorovskaya stepped down from the Board of Directors.

**Key to committee
membership**

Audit Committee

Nomination
and Compensation
CommitteeStrategy and Risk
management
Committee^①Committee's
Chairman**BOARD COMPOSITION AS OF 31 DECEMBER 2018****Oleg Vyugin**

Chairman of the Board of Directors



Date of birth: 1952

Oleg was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2018. Was re-appointed as Chairman of the Board of Directors in June 2018 (serves as Chairman starting from June 2017).

**EDUCATION AND QUALIFICATIONS**

Oleg graduated from Lomonosov Moscow State University majoring in "Mechanics and Mathematics". Master of Physical and Mathematical Sciences. Author of more than 20 research papers and publications on the theory of probability and macroeconomic model building. He was awarded with the title "Honoured Economist of the Russian Federation".

CAREER

Nowadays Oleg is Chairman of Supervisory Board, independent director of PJSC Moscow Exchange, member of the Board of Directors, independent director of PJSC NK Rosneft, professor of Economics at National Research University - Higher School of Economics. He holds positions at governing bodies of other legal entities: National Association of Stock Market Participants (Chairman), CJSC National Settlement Depository (member of Supervisory Board), LLC Skolkovo-Venture investments (member of Board of Directors), Foundation Centre for Strategic Research (member of Foundation Board), National Committee on Corporate Governance (member of Executive Committee).

At different points in his career he held positions of First Deputy of Minister of Finance of the Russian Federation, First Deputy of Chairman of the Bank of Russia, Head of the Federal Service on Financial markets, non-staff counselor of Chairman of the Government of the Russian Federation, Executive Vice-President of CJSC Investment Company Troika Dialog, Senior Counselor on Russia and CIS of Morgan Stanley Bank LLC, Chairman of the Board of Directors of PJSC MDM Bank, member of the Board of Directors of PJSC B&N BANK.

Does not hold Company shares.

^① The committee operated until 29 November 2017. It was then re-established based on the resolution by the Board of Directors dated 15 February 2018.

Key to committee membership**Oleg Andriyankin**

Chief Financial Officer



Date of birth: 1981

Oleg was appointed to the Board of Directors of PJSC SAFMAR Financial investments in November 2017.

**EDUCATION AND QUALIFICATIONS**

Oleg graduated from the State University - Higher School of Economics in 2003.

CAREER

Oleg Andriyankin joined SAFMAR INDUSTRIAL AND FINANCIAL GROUP in January, 2016 coming from the MDM Bank where he had been working since 2010 and having grown from the Head of IFRS Department to Financial Director. Oleg has more than 10 years of experience in financial management with the largest foreign and Russian companies, in particular, with the EY audit company, TNK-BP and Sberbank Capital.

He currently holds position of CFO of SAFMAR INDUSTRIAL AND FINANCIAL GROUP and PJSC SAFMAR Financial investments, being responsible for strategic planning, budgeting, controlling, developing management statements and capital and liquidity management.

Does not hold Company shares.

Alla Gryaznova

Independent Director



Date of birth: 1937

Alla was appointed to the Board of Directors of PJSC SAFMAR Financial investments in October 2015.

**EDUCATION AND QUALIFICATIONS**

Alla graduated from Moscow technical school of Finance in 1955, then from Moscow Institute of Finance in 1959 majouring in "Finance and Credit", Master of Economics (since 1964), Doctor of Economics (since 1976).

CAREER

President of the University of Finance under the Government of the Russian Federation, First Vice-President of International Financiers Guild, Honored Scientist of the Russian Federation, Doctor of Economics, Professor.

In 1964 she was successfully involved in academic and scientific activities; she headed department of theoretical economics for 12 years. In 1976 Alla held position of deputy principal on scientific researches and international communications. Since 1985 she has held the position of Principal, and since 2007 - President of the University of Finance under the Government of the Russian Federation.

Does not hold Company shares.

Mikail Gutseriev

Non-executive Director



Date of birth: 1958

Mikail was appointed to the Board of Directors of PJSC SAFMAR Financial investments in August 2017.

**Key to committee
membership**

Audit Committee



Nomination
and Compensation
Committee



Strategy and Risk
management
Committee



Committee's
Chairman

EDUCATION AND QUALIFICATIONS

Graduated from the Dzhambul Technological Institute of Light and Food Industry in Dzhambul (Kazakh SSR) majouring in "Chemical process engineering", Gubkin State University of Oil and Gas majouring in "Oil and Gas Engineering and Technology", Finance Academy under the Government of the Russian Federation majoring in "Finance and Credit" and Saint-Petersburg University of Law majoring in "Civil Law". Completed a postgraduate program at Saint-Petersburg University of Law (majoring in "Criminal Procedural Law") and defended his thesis for Master of Laws. Defended his thesis (majoring in "Free Economic Zones") at Plekhanov Russian Academy of Economics and became Doctor of Economics.

CAREER

In 1975, started his career as a freight handler in the city of Grozny. From 1976 to 1982 worked his way up from a reel operator to a foreman at Dzhambul Factory of Arts&Crafts (Kazakh SSR).

From 1982 to 1985 worked as a process engineer, later becoming a senior process engineer, then a department supervisor, moving up to a senior foreman, and finally a chief engineer at Grozny Production Association at the Ministry of Local Industry of RSFSR, Grozny. From 1986 to 1992 - CEO of the Association.

In 1991, was elected Chairman of the Entrepreneurs Association of Chechen-Ingush ASSR.

In 1992, founded and headed the financial-industrial company B&N in Moscow and Joint Stock Commercial Bank B&N in 1993, becoming the first President of the latter.

In 1994, was elected President of B&N Consortium, which included industrial enterprises, trading and consulting companies, financial institutions, and oil enterprises.

In 1995-2000, was twice elected deputy to the State Duma of the Russian Federation, held the position of Deputy Chairman of the Duma.

In February 2000 at the extraordinary meeting of shareholders of Russian-Belarusian State Oil and Gas Company Slavneft he was elected President of the Company.

In February 2001, was elected Vice-President of the Russian Union of Industrialists and Entrepreneurs.

In September 2002, he founded and headed oil and gas company RussNeft.

2007-2010, lived and worked in the UK. During these years he successfully implemented a number of large-scale oil and gas projects in Azerbaijan, Kazakhstan, African countries.

June 2010 to February 2015 - President of Oil Company RussNeft.

In February 2015, due to a large-scale business development of two oil companies that he owned (Oil Company RussNeft and Oil Company Neftisa), he became Chairman of the Board of Directors of these companies, focusing on strategic assets management.

Holder of numerous government and public honor awards:

- Order of Friendship;
- Honor Sign Order;
- I Grade Order of Sergiy Radonezhsky;
- II Grade Order of Sergiy Radonezhsky;
- III Grade Order of Sergiy Radonezhsky;
- I Grade Order of Daniil Moskovsky;
- II Grade Order of Daniil Moskovsky;
- III Grade Order of Glory and Honesty;
- II Grade Order of Prince Vladimir;

Key to committee membership

Audit Committee

- I Grade Al-Fakhr Order of Honor;
- Order of the Community of Interparliamentary Assembly of the CIS;
- Medal For Labor Virtue;
- Medal For Labor Distinction;
- Medal For Distinguished Services in Special Operations;
- four times honoree of autographed weapons for completing special missions of the Russian Government.



Nomination and Compensation Committee

Mikail Gutseriev was honoured with the following titles: "Honoured Oilman of Russia", "Honoured Economist of Russia", "Honoured functionary of Fuel and Energy Complex".



Strategy and Risk management Committee

For his extensive charity aid to religious organisations, peacekeeper veterans, orphanages, education and cultural organisations he was awarded with order signs, diplomas and letters of gratitude from President of the Russian Federation, President of the Republic of Belarus, Patriarch of All Russia, Chairman of the Russian Council of Muftis, Chief Rabbi of Russia and the board of the Jewish Community Federation, officials of a number of Russian regions, as well as from public, state, and power organisations of the country.

Does not hold Company shares.



Committee's Chairman

Said Gutseriev
 Non-executive Director


Date of birth: 1988

Said was appointed to the Board of Directors of PJSC SAFMAR Financial investments in August 2017.

**EDUCATION AND QUALIFICATIONS**

Graduated from Plymouth Business School, Plymouth University in 2011. Graduated from St Peter's College, University of Oxford, with an MA degree.

CAREER

In 2012-2014 Said worked at Glencore UK Ltd.

Since 2014, Said holds the position of Chief Executive Officer of AO ForteInvest. He is also a Chairman of the Board of Directors of AO Preobrazhenskneft, AO Oilgaztet, OOO Geoprosess and OOO Eldorado.

He is a member of the Board of Directors at NK RussNeft, Orsknefteorgsintez, NK Neftisa, Russian Coal, A.N.D. Corporation and others.

Does not hold Company shares.

Avet Mirakyan

Chief Executive Officer



Date of birth: 1974

Avet was appointed to the Board of Directors of PJSC SAFMAR Financial investments in June 2016.

**Key to committee
membership**

Audit Committee

Nomination
and Compensation
CommitteeStrategy and Risk
management
CommitteeCommittee's
Chairman**EDUCATION AND QUALIFICATIONS**

In 1996, Avet graduated from Erevan State University majoring in "International Economic Relations".

Avet is a Certified Public Accountant of the USA (CPA), holds a Russian certificate for audit and Certificates of Federal Financial Markets Service (first and fifth degree).

CAREER

He started his career in 1995 working at the Department of Monetary Policy at the Central Bank of the Republic of Armenia and later at the Banking Supervision Department. In 1997, he started working at the Russian private commercial bank. For ten years since 1998 he worked for audit companies Arthur Andersen and Ernst & Young (EY), where he worked his way up from an assistant to the Partner in the Financial Markets Department.

In 2007, Avet joined B&N BANK as Senior Vice President and CFO. In 2008-2009 he held the same position at BNP Paribas Bank (CIB, Russia). From 2010 to 2015 he was a Partner and Head of the CIS Financial Markets Transaction Services practice at Ernst & Young (EY).

Since January 2016, Avet holds the position of Chief Executive Officer of SAFMAR INDUSTRIAL AND FINANCIAL GROUP.

Holds 648 of Company's ordinary registered shares (0.0006% of authorised capital).

Ilya Mikhaylenko

Non-executive Director



Date of birth: 1973

Ilya was appointed to the Board of Directors of PJSC SAFMAR Financial investments in August 2017.

EDUCATION AND QUALIFICATIONS

Ilya Mikhaylenko graduated from Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation in 1996 (Law faculty), Master of Laws.

CAREER

2008 - till present, holds the position of CEO of OJSC Corporate Investments and Technologies specialising in consulting services.

Does not hold Company shares.

Key to committee
membership**Alexander Myakenky**
Independent Director

Date of birth: 1947

Alexander was appointed to the Board of Directors of PJSC SAFMAR Financial investments in October 2015.

**EDUCATION AND QUALIFICATIONS**

Independent expert accredited by the Ministry of Justice of the Russian Federation to carry out expertise on propensity for corruption. Expert of analytical media portal "Mir bezopasnosti" (World of Security), member of Russian Union of Journalists. In 1975, he graduated from All-Union Correspondence Institute of Law (now Moscow State Law University) majouring in "Legal Studies", in 1984 - All-Union Institute of Advanced Training for Senior Officials of Gosnab of USSR. From 1991 to 2008 attended several bank seminars on legal issues and economic security.

CAREER

From 1969 to 1976, Alexander Myakenky served at the Ministry of Internal Affairs of USSR. From 1977 to 1979, he held the position of people's judge of Moscow. From 1979 to 1988, he was Head of Contractual and Legal Department of Gosnab of USSR. From 1989 to 1991 he was Head of Legal Department at TASS under the Council of Ministers of USSR. From 1991 to 1993 he was Head of Legal Department (member of the Management Board) at Finist Bank, Vserossijskiy birzhevoj bank (All-Russian Exchange Bank), MAPO Bank. From 1994 to 1996, he was appointed Chief Executive Officer of LLC ELMED.

From 1997 to 2008, he held the position of Vice-President at B&N BANK.

In 2008, he headed legal department of Slav-service LLC.

From 2010 to 2011, Alexander Myakenky was Chief Counselor of All-Russian non-governmental organisation "Association of Russian Lawyers". From 2010 to 2014, he held the position of Deputy Principal of Russian Academy of Lawyers and Notaries.

Does not hold Company shares.

Sergey Nazarov

Independent Director



Date of birth: 1973

Sergey was appointed to the Board of Directors of PJSC SAFMAR Financial investments in October 2015.

**EDUCATION AND QUALIFICATIONS**

Sergey graduated from Khabarovsk State University of Economics and Law (bachelor's degree with honors), has professional international CFA qualification.

CAREER

From 2013 to 2016 he was Managing Director of Moscow branch office of Standard & Poor's and was responsible for business development, supervision of company activities in Russia and countries of former USSR and cooperation with state authorities.

From 2016 to 2017 was member of the Board of Directors of JSC "AKB RosEvroBank".

In September 2018 Sergey was appointed Deputy CEO of Rating Agency "Expert RA". He is also an independent director of the Board of Directors of the JSC "Petersburg Social Commercial Bank".

Sergey obtained a great working experience in investments and attraction of foreign investments to Russian financial sector at leading international financial organisations (EBRD and Renaissance Capital), as well as working at boards of directors of Russian banks and non-bank financial companies.

Does not hold Company shares.

Bilan Uzhakov

Non-executive Director



Date of birth: 1987

Bilan was appointed to the Board of Directors of PJSC SAFMAR Financial investments in August 2017.

**EDUCATION AND QUALIFICATIONS**

In 2010, he graduated from the University of Hamburg, in 2012 - from Plekhanov Russian Academy of Economics, in 2015 - from National Research University - Higher School of Economics, and in 2017 - from Sberbank Corporate University in cooperation with London Business School (Development program for key management).

Key to committee membership

Audit Committee



Nomination
and Compensation
Committee



Strategy and Risk
management
Committee



Committee's
Chairman

Key to committee membership

Audit Committee

CAREER

From November 2010 to October 2012, Bilan worked at OJSC NK RussNeft with specialisation in credit and headed Department of Credit and Capital Markets.

From October 2012 to June 2013, he was Chief Financial Officer (Deputy CEO) at OJSC Russian Coal.

From July 2013 to May 2017 was Chief Executive Officer at OJSC Russian Coal.



Nomination and Compensation Committee

Bilan is Chief Executive Officer at MVM LLC, PJSC M.Video and Eldorado LLC (till its merger with MVM LLC in February 2019).

Does not hold Company shares.



Strategy and Risk management Committee

Sergey Tsikalyuk

Non-executive Director



Date of birth: 1959

Sergey was appointed to the Board of Directors of PJSC SAFMAR Financial investments in August 2017.

**EDUCATION AND QUALIFICATIONS**

Graduated from a military school and Military Academy, studied finance at the Plekhanov Russian Academy of Economics. From 1976 to 1992 he did military service. 1992-1993, received professional training in insurance at leading insurance companies in Germany.

CAREER

In 1992, he founded the insurance company VSK and took the position of CEO of the company. Since May 2007, Chairman of the Board of Directors of VSK.

He was honoured a number of state awards: Distinguished Service Medal, fourth-class Order of Merit for the Motherland, Order of Alexander Nevsky, and others.

He was repeatedly honoured as one of the most professional managers in insurance business.

Does not hold Company shares.

BOARD OF DIRECTORS' REPORT

Oleg Vyugin remained the Chairman of the Board of Directors during 2018. He has held this office ever since he was elected at the first meeting of the Board of Directors all the way through the Extraordinary General Meeting of Shareholders of November 2017 and the Annual General Meeting of Shareholders of May 2018 up to now.

The Board of Directors and the Board Committees meet the Moscow Exchange requirements for corporate governance of issuers included into the Level 1 (A1) Quotation List and the recommendations of the Bank of Russia's Code of Corporate Governance. The Audit Committee and the Remuneration and Nomination Committee were chaired by independent directors, with the majority of the committee members also represented by independent members of the Board of Directors.

In 2018, the Board of Directors held 17 Board meetings, including 8 meetings held in person, and 10 meetings of the Board Committees.

During the reporting period, the Board of Directors addressed key matters, including the convocation of the Annual and Extraordinary Meetings of Shareholders, and looked into the recommendations of the Board of Directors based on the agenda of general meetings, which covered payment of dividends and approval of the new version of the Charter. The Board of Directors passed resolutions on the key development priorities of the Company (strategy) that include approval of the budget and quarterly CEO reports on the Company's general and budget performance, guidance for the governance bodies of subsidiaries and affiliates, approval of internal documents of the Company, determination of the fee payable to the external Auditor in charge of RAS financial statements and approval of the Auditor in charge of IFRS financial statements, approval of transactions, approval of Internal Audit inspection reports and plans as well as other matters which come within the authority of the Board of Directors.

The Board Committees held preliminary discussions and prepared recommendations on the most critical matters of the Company for the Board of Directors to take final decisions on those items later on.

ATTENDANCE OF THE BOARD OF DIRECTORS AND BOARD COMMITTEE MEETINGS

With the Company's reorganisation completed in 2017, the overall number of meetings held in 2018 saw a y-o-y decrease. The number of Board meetings held in person stayed unchanged, highlighting the efficiency and strong performance of the Board of Directors as a single body and the desire of each of its members to make meaningful contributions to support the sustained organisational efforts made by the Chairman.

In 2018, all members of the Board of Directors actively participated in meetings and discussions. Over the reporting period, quorum was present for each item of the meeting agendas, including approvals for interested-party transactions which won support of the qualified majority of Board members.

01.01.2018-28.05.2018

Members of the Board of Directors in the reporting year	Independent director	Board of Directors meetings attended	Audit Committee	Remuneration and Nomination Committee
Oleg Andriyankin	–	6/6	–	–
Oleg Vyugin - Chairman of the Board of Directors	–	6/6	–	–
Andrey Gorokhov	–	5/6	–	–
Alla Gryaznova	+	6/6	2/2	2/2
Mikail Gutseriev	–	5/6	–	–
Said Gutseriev	–	4/6	–	–
Anton Zhuchenko	–	5/6	–	–
Maxim Kosolapov	+	6/6	2/2	–
Ilya Mikhaylenko	–	6/6	–	–
Avet Mirakyan	–	6/6	–	–
Alexander Myakenky	+	6/6	2/2	2/2
Sergey Nazarov	+	6/6	2/2	2/2
Olga Prozorovskaya	–	3/6	–	–
Bilan Uzhakhov	–	6/6	–	–
Sergey Tsikalyuk	–	4/6	–	–

28.05.2018-31.12.2018

Members of the Board of Directors in the reporting year	Independent director	Board of Directors meetings attended	Audit Committee	Remuneration and Nomination Committee
Oleg Andriyankin	–	11/11	3/3	–
Oleg Vyugin - Chairman of the Board of Directors	–	11/11	–	–
Alla Gryaznova	+	11/11	3/3	3/3
Mikail Gutseriev	–	10/11	–	–
Said Gutseriev	–	9/11	–	–
Ilya Mikhaylenko	–	11/11	–	–
Avet Mirakyan	–	11/11	–	–
Alexander Myakenky	+	11/11	3/3	3/3
Sergey Nazarov	+	11/11	3/3	3/3
Bilan Uzhakhov	–	11/11	–	–
Sergey Tsikalyuk	–	9/11	–	–

REMUNERATION AND COMPENSATION FOR MEMBERS OF THE GOVERNANCE BODIES

Board of Directors

In 2018, directors were entitled to remuneration and compensation determined in accordance with the Remuneration and Compensation Policy for the Board of Directors approved by a resolution of the General Meeting of Shareholders.

The amount of remuneration payable to independent directors is linked to:

- performance of director's duties related to the membership in the Board of Directors; and
- performance of other duties related to the membership in the Board Committees.

The annual remuneration payable to an independent director comprises the fixed base and fixed additional components. **The fixed base component of the annual remuneration** is payable to an independent director for the performance of director's duties related to the membership in the Board of Directors and totals RUB 2.5 m (before taxes). **The fixed additional component of the annual remuneration** is payable to an independent director for the performance of duties related to the membership in the Board Committees. **The fixed additional component of the annual remuneration** payable for the membership in the Board Committees amounts to RUB 0.5 m (before taxes) per committee.

The actual amounts of fixed remuneration accrue pursuant to clauses 4.4-4.6 of the Policy pro rata the number of meetings attended by an **independent director**. Any member of the Board of Directors and the Board Committees may select to waive the remuneration payable for the membership in the Board of Directors and the Board Committees by submitting the respective waiver to the Company's Board of Directors.

The Board of Directors has set up the Remuneration and Nomination Committee which previews key matters related to the remuneration policy with respect to members of the Board of Directors, supervises its implementation, and pre-approves the terms and conditions of the contract with the sole executive body.

No other short- or long-term financial incentives are available to members of the Board of Directors.

Each member of the Board of Directors may receive compensation of travel expenses incurred in connection with their participation in Board of Directors meetings or performance of duties related to the membership in the Board of Directors, including negotiations, meetings, presentations and other events run by the Board of Directors, based on the rates established for the employees of SAFMAR Financial investments.

No additional amounts or compensations are payable to members of the Board of Directors in the event of their powers being terminated early.

In 2018, **the total (aggregate) remuneration paid to members of the Board of Directors before taxes stood at** RUB 11,661,630 (vs RUB 11,087,322 in 2017).

In 2018, members of the Board of Directors who were also employees of the Company received salaries and bonuses in the total amount of RUB 58,112,000.

MANAGEMENT BOARD

No remuneration was paid to the Management Board as there was none formed in 2018.

SOLE EXECUTIVE BODY

The Company has no information about the sole executive body's remuneration in Group's companies (for management duties or participation in governing bodies). Such information can be found in the quarterly reports of companies obliged to publicly disclose information.

BOARD COMMITTEES

Following the Annual General Meeting of Shareholders for 2017 that took place on 28 May 2018, the Company's Audit and Remuneration and Nomination Committees were elected, both of which are composed mainly of independent directors. The Chairs of both Committees were also elected from among the independent directors.

AUDIT COMMITTEE

Composition of the Committee as at 31 December 2018

- Sergey Nazarov – Chairman of the Committee
- Oleg Andriyankin
- Alla Gryaznova
- Alexander Myakenky

For the biographies of the members of the Audit Committee, please see pages

 **81–88**

For the information on the Audit Committee meeting attendance, please see pages

 **89–90**

Composition of the Audit Committee effective as at 31 December 2018 was approved by the resolution of the Board of Directors of SAFMAR Financial investments dated 4 June 2018. Initially, the Committee was made up of three independent directors: Alla Gryaznova, Alexander Myakenky, and Sergey Nazarov. Sergey Nazarov was the Chairman of the Committee. Oleg Andriyankin, CFO of SAFMAR Financial investments, joined the Committee pursuant to the resolution of the Board of Directors adopted on 4 June 2018.



Since its inception, the Audit Committee has been compliant with the Moscow Exchange requirements for corporate governance of issuers included into the Level 1 (A1) Quotation List and most of the provisions of the Code of Corporate Governance.

In 2018, the Audit Committee held five meetings, including three meetings held in person. The Committee deliberated on matters which come within its authority, including:

- 2017 annual accounts of the Company (with the Committee expressing its opinion on the external Auditor's report and submitting it to the Annual General Meeting of Shareholders);
- Internal Audit inspection results supplied for the first to third quarters of 2018 and for the full year of 2017;
- external Auditor's nomination for 2018 (with a recommendation submitted for approval to the Annual General Meeting of Shareholders);
- report on the Committee's work in 2017 and plan for 2018.

Following deliberations, the Committee issued recommendations, including with regard to:

- the Internal Audit performance report for 2017;
- Auditor's nomination;
- opinion on the Auditor's report based on annual accounts of the Company for 2017.

REMUNERATION AND NOMINATION COMMITTEE



Composition of the Committee as at 31 December 2018

- Alexander Myakenky – Chairman of the Committee
- Alla Gryaznova
- Sergey Nazarov

For the biographies of the members of the Remuneration and Nomination Committee, please see pages

81–88

For the information on the Remuneration and Nomination Committee meeting attendance, please see pages

89–90

Composition of the Remuneration and Nomination Committee effective as at 31 December 2018 was approved by the resolution of the Board of Directors of SAFMAR Financial investments dated 04 June 2018. The Committee includes three independent directors: Alla Gryaznova, Alexander Myakenky, and Sergey Nazarov. The Committee is chaired by Alexander Myakenky.

The Committee is fully compliant with the Moscow Exchange requirements for corporate governance of issuers included into the Level 1 (A1) Quotation List and the provisions of the Code of Corporate Governance.

In 2018, the Committee met five times to consider agenda items and make resolutions, with all of the Committee meetings being held in person. The Committee deliberated on matters which come within its authority, including:

- consideration of nominations to the Board of Directors and the Revision Commission of the Company to confirm nominees' compliance with the requirements of the Moscow Exchange and the provisions of the Code of Corporate Governance;
- motivation of SAFMAR Financial investments employees;
- reports on staff turnover.

Following deliberations, the Committee issued recommendations, including with regard to:

- nominees recommended for election to the Board of Directors and the Revision Commission of the Company;
- the organisational structure of the Company;
- promotion of corporate culture and support to intra-group HR coordination.

STRATEGY AND RISK MANAGEMENT COMMITTEE



The Company also has the Strategy and Risk Management Committee that consists of seven members. The Committee was established by the resolution of the Board of Directors dated 4 June 2018 to exercise its mandate in the format of a working group without reviewing matters reserved to the remit of the Board of Directors or issuing any recommendations.

Composition of the Committee as at 31 December 2018

- Oleg Vyugin
- Mikail Gutseriev
- Said Gutseriev
- Avet Mirakyan
- Sergey Nazarov
- Bilan Uzhakhov
- Sergey Tsikalyuk

For the biographies of the members of the Strategy and Risk Management Committee, please see pages

81–88

INTERNAL CONTROL OVER BUSINESS AND FINANCIAL OPERATIONS: STRUCTURE AND POWERS

The Company has both the Revision Commission and the Internal Audit function in place. The Board of Directors has set up the Audit Committee. The powers of the Revision Commission are set out in the Company's Charter (Section 14 of the 21st version of Charter).

The powers of the Internal Audit function are described in the Regulation on the Internal Audit Function (version 2 dated 31 August 2016) approved by the Board of Directors on 28 October 2015 and available at



www.e-disclosure.ru



www.safmarinvest.ru

The powers of the Audit Committee are described in the respective Regulations approved by the Board of Directors on 28 October 2015 and disclosed at



www.e-disclosure.ru



www.safmarinvest.ru

MEMBERS OF THE REVISION COMMISSION AND INSPECTOR IN 2018

Revision commission

functioned until the Annual General Meeting of Shareholders on 28 May 2018

	Full name	Date of birth	Primary employment	Interest in the authorised capital and percentage of ordinary shares
1	Marina Agafonova	1988	Chief Expert of Internal Audit, B&N Bank	0%
2	Ilya Drozdov	1982	Head of Internal Control, Rost Bank	0%

Inspector

elected by the decision of the Annual General Meeting of Shareholders on 28 May 2018

	Full name	Date of birth	Primary employment	Interest in the authorised capital and percentage of ordinary shares
1	Andrey Gorokhov	1980	Deputy CEO for Accounting, Reporting and New Projects, Corporate Investments and Technologies LLC	0%

MEMBERS OF INTERNAL AUDIT IN 2018

	Full name	Date of birth	Primary employment	Interest in the authorised capital and percentage of ordinary shares	Working period
1	Anastasia Kozhemyakina	1976	Head of Internal Audit	0%	18.09.2017 - 07.03.2018
2	Elena Evdokimova	1970	Head of Internal Audit	0%	31.08.2018 - present

REMUNERATION AND COMPENSATION FOR MEMBERS OF CONTROL BODIES

REVISION COMISSION

In 2018, no compensation was paid by the Company for the expenses related to the performance of the members' duties with the Revision Commission.

INTERNAL AUDIT

In 2018, the remuneration amount (salary) of the Internal Audit personnel stood at RUB 1.69 m. In 2018, no compensation was paid by the Company for the expenses related to the performance of the members' duties with the Internal Audit function.

EXTERNAL AUDIT

The Company selects auditors through bidding whereby it requests and compares auditors' proposals.

When comparing auditors' proposals, the Company relies on the following criteria:

- whether an offerer belongs to leading international audit firms;

- whether an offerer commands a good business reputation;
- whether an offerer has a track record with leasing companies, banks, insurance companies with extensive branch networks across Russia;
- whether an offerer has in-house experts certified by internationally recognized accounting and auditing associations and organisations;
- whether an offerer has a professional, highly qualified, experienced working group;
- whether the fee is acceptable; and–whether the offerer is willing to meet the Company's deadlines.

The Company designates and authorises its employees and, if required, other experts and specialists, to review the proposals, which includes evaluation and follow-up negotiations, if necessary. At the evaluation stage, the Company evaluates, compares and ranks proposals by relevance based on the above criteria.

In June 2018, the Board of Directors set the fees payable to Ernst & Young LLC for the 2018 reporting period at RUB 12,466,700, including VAT. The increase in payment for audit services y-o-y was due to consolidation of re-acquired assets into financial statements.



Information for shareholders and investors

SHARE CAPITAL

As at 31 December 2018, the authorised capital of SAFMAR Financial investments amounts to RUB 74,797,319.97 and consists of 111,637,791 ordinary registered shares with a par value of RUB 0.67 each. On 23 March 2017, all issues of ordinary registered shares were merged into a single issue under state registration No. 1-02-56453-P. The Company has no preferred stock. The Government has no share in the Company's authorised capital.

On 2 August 2018, Daglis, a shareholder of SAFMAR Financial investments and part of SAFMAR Group, sold 16,745,669 ordinary shares of the Company (ca. 15% of the Company's authorised capital). The deal was completed through an accelerated book building.

STOCK EXCHANGE PERFORMANCE

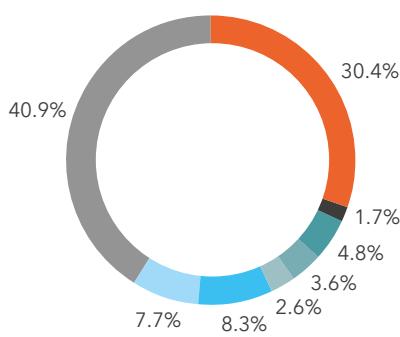
The Company's ordinary shares are included in the Level 1 (A1) Quotation List of the Moscow Exchange. The shares of SAFMAR Financial investments have also been selected as constituent stocks of the Moscow Exchange's two key indices - MOEX Russia and RTS, as well as its Broad Market Index and the sectoral index for Finances. As at 31 December 2018, SAFMAR Financial investments' weight in the MOEX Russia and RTS indices stood at 0.28%.

Stock exchange profile of SAFMAR Financial investments' ordinary shares (Moscow Exchange)

Ticker	SFIN
Type/category of securities	Ordinary share
Listing level	1
Par value, RUB	0.67
State registration number	1-02-56453-P
Trading start date	4 December 2015
Inclusion in index baskets	MOEX Russia, Broad Market Index, Finances Index

STRUCTURE OF SAFMAR FINANCIAL INVESTMENTS' SHARE CAPITAL AS AT 31 DECEMBER 2018^①

The number of shareholders registered in the share register is 787



SAFMAR Group's companies

SAFMAR Group's holding companies	30.4%
VSK Insurance House	1.7%

SFI subsidiaries

NPF SAFMAR	4.8%
NPF Doverie	3.6%
Invest-Project	2.6%

Other shareholders

NPF BUDUSHCHEYE	8.3%
Trust Bank	7.7%
Other financial investors (individuals and legal entities)	40.9%

^① As at the end of the reporting period, free-float stood at 43% as calculated in accordance with the Moscow Exchange's official methodology.

Stock exchange performance of SAFMAR Financial investments' ordinary shares in 2018 (Moscow Exchange)

Maximum closing price, RUB	803
Minimum closing price, RUB	521
Average daily trading volume, RUB m	58.5
Average daily trading volume, shares	85,010
Average number of trades per day	868
Price at the end of reporting period, RUB	580
Capitalisation at the end of reporting period, RUB m	64,772.2

Source: Bloomberg

SHARE REGISTER

Since 5 October 2015, the register of holders of the Company's registered securities has been maintained by a dedicated Registrar - JSC Servis-Reestr, OGRN 1028601354055 / INN 8605006147, located at 12 Sretenka St., Moscow, 107045, Russia.

Registrar licence No. 045-13983-000001 was issued on 2 March 2004. The register of holders of the Issuer's registered securities was transferred pursuant to resolution No. 11-2015 of the Company's sole shareholder dated 18 September 2015.

Performance of SFI ordinary shares in 2018, RUB



Source: Bloomberg

MARKET MAKERS

During 2018, and as at the Report date, the Company signed market making agreements with a number of investment and brokerage firms, including IT Invest, FINAM and UNIVER Capital.

DIVIDEND POLICY

The Regulation on Dividend Policy of SAFMAR Financial investments was approved by the resolution of the Board of Directors in February 2018.

The recommended amount of dividend payments is determined by the Company's Board of Directors based on the financial performance during the year. Target dividend payments shall be no less than 75% of the smaller of two values below:

- net profit according to the RAS (Russian Accounting Standards) accounting (financial) statements of the Company for the reporting year; or
- free cash flow of the Company for the reporting year, subject to the availability of dividend income from subsidiaries/affiliates.

Pursuant to the Russian laws, dividends are paid from the Company's net profit for the reporting period or retained earnings from prior years as reported in the RAS statements. The main source of income of SAFMAR Financial investments as a financial holding is dividends from subsidiaries and affiliates. Under RAS, dividends are recognised as income upon their receipt, forming the holding's profit base and allowing it to pay dividends to its shareholders. Profit can also come from positive revaluation of the Company's investments, but it does not

generate a corresponding cash flow which can serve as a base for shareholder payouts. In order to eliminate this ambiguity, the Company's Board of Directors resolved to use the lesser of either RAS net profit or free cash flow to calculate the target level of dividend payouts.

The Annual General Meeting of Shareholders held on 28 May 2018 resolved to pay dividends for 2017 in the total amount of RUB 3.38 bn (RUB 30.25 per share), including RUB 1.45 bn of interim dividends for the first nine months of 2017. The overall payout ratio came in at 99.7% of the Company's net profit for 2017 (RUB 3.39 bn under RAS).

The Regulation on Dividend Policy is available on the Company's web site at
 www.safmarinvest.ru,
 www.e-disclosure.ru/portal/files.aspx?id=11328&type=1.

The Company publishes resolutions of its General Meeting of Shareholders concerning dividend payments on its corporate web site at www.safmarinvest.ru or online on the disclosure web site at <http://www.edisclosure.ru/portal/company.aspx?id=11328>, and also communicates relevant information to its shareholders through publications prescribed by the applicable laws of the Russian Federation.

5-year history of dividend payment

Year	Type of shares	State registration number	Dividend per share, RUB
2013 - 2016	Ordinary shares	1-02-56453-P	0
2017	Ordinary shares	1-02-56453-P	30.25



INFORMATION POLICY

The Company makes disclosures in a regular, consistent, and timely manner, ensuring accessibility, reliability, completeness and comparability of the information.

The Company makes disclosures on its securities, business and financial operations as follows:

- information on the stages of the securities issue as well as statements of material facts;
- prospectus;
- quarterly reports;
- annual reports;
- Charter;

- information that may have a material impact on the market value of its securities; and
- information on its affiliates.

The Corporate Governance Code compliance report prepared pursuant to the Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016 On Disclosure of Compliance with the Principles and Recommendations of the Code of Corporate Governance in Annual Reports by Public Joint Stock Companies is available in Appendix 1 hereto.

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(in thousands of Russian rubles, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	7	2,799,437	14,100,288
Financial instruments at fair value through profit or loss	8	210,129,673	165,875,030
Deposits with banks		50,041	292,018
Net investment in leases after impairment allowance	9	56,626,878	40,551,497
Reverse repurchase agreements and accounts receivable	10	52,231,136	44,249,839
Equipment purchased and advances to suppliers for lease operations	11	613,617	789,586
Deferred acquisition costs	12	7,812,959	4,594,159
Current income tax prepayment		240,739	299,839
Deferred tax assets	34	432,526	43,332
VAT recoverable		1,527,537	1,037,664
Property and equipment	13	596,103	353,635
Investments in associates	14	21,930,468	18,903,926
Goodwill	15	27,439,058	24,200,607
Other assets	16	1,251,824	1,625,461
Total assets		383,681,996	316,916,881
Liabilities			
Liabilities under compulsory pension insurance contracts	17	241,637,437	187,892,270
Liabilities under non-state pension arrangements	17	7,959,115	8,147,539
Borrowings	18	31,975,769	21,790,611
Advances received from lessees		1,546,988	1,207,176
Bonds issued	19	12,213,440	9,658,428
Current income tax payable		197,412	37,713
Deferred tax liabilities	34	1,875,393	1,246,235
VAT payable		72,976	54,611
Other liabilities	20	2,737,829	2,314,344
Total liabilities		300,216,359	232,348,927
Equity			
Share capital	21	74,797	74,797
Additional paid-in capital	21	67,310,103	67,204,629
Treasury shares	21	(7,577,737)	(875,218)
Compulsory pension insurance reserve and insurance reserve	21	7,776,470	3,278,038
Retained earnings		15,826,471	14,885,708
Total equity attributable to shareholders		83,410,104	84,567,954
Non-controlling interests		55,533	-
Total equity		83,465,637	84,567,954
Total liabilities and equity		383,681,996	316,916,881

Approved for issue and signed on behalf of PJSC "SAFMAR Financial investments" on 23 April 2019..

Avet Mirakyan

CEO of PJSC "SAFMAR Financial investments"

Oleg Andriyankin

CFO of PJSC "SAFMAR Financial investments"



The notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

(in thousands of Russian rubles, unless otherwise stated)

	Note	2018	2017
Interest income	22	10,761,791	9,294,264
Interest expense	22	(3,783,512)	(2,911,125)
Net interest income		6,978,279	6,383,139
Change in allowances for expected credit losses on interest-earning assets	23	42,576	(133,629)
Net interest income after allowance for impairment of interest-earning assets		7,020,855	6,249,510
Pension contributions	24	7,999,159	8,002,590
Pension payments	25	(15,817,682)	(5,359,693)
Net (losses)/gains of the pension fund from the placement of own funds, pension savings and pension reserves	26	(23,218,739)	6,266,460
Change in pension liabilities	27	37,788,454	(6,265,147)
Share in net profit of associates	14	3,924,897	2,942,509
Net other income	28	2,816,960	2,190,456
Income from operations		20,513,904	14,026,685
Net foreign exchange gains	29	1,171,715	74
Total income from operations and finance income		21,685,619	14,026,759
Staff expenses	30	(4,191,042)	(3,546,978)
Other operating expenses	31	(1,744,483)	(1,189,807)
Acquisition costs	32	(929,173)	(455,140)
Change in other allowances for impairment	23	(45,807)	(1,430)
Impairment of goodwill	15	(4,000,000)	-
Other income	33	277,259	972,941
Other expenses		(94,340)	(51,258)
Profit before income tax		10,958,033	9,755,087
Income tax expense	34	(2,026,697)	(1,490,685)
Net profit		8,931,336	8,264,402
Net profit attributable to:			
Shareholders		8,925,320	8,264,402
Non-controlling interests		6,016	-
Other comprehensive income			
Share of other comprehensive income of associates	14	(898,355)	182,086
Total other comprehensive income/(loss)		(898,355)	182,086
Total comprehensive income		8,032,981	8,446,488
Total comprehensive income attributable to:			
Shareholders		8,026,965	8,446,488
Non-controlling interests		6,016	-
Earnings per share (expressed in Russian rubles per share)	21	85.92	74.88

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

(in thousands of Russian rubles, unless otherwise stated)

	Note	Share capital	Treasury shares	Additional paid-in capital	Compulsory pension insurance reserve and insurance reserve	Retained earnings	Total equity attributable to shareholders	Non-controlling interests	Total equity
Balance at 1 January 2017		74,797	(80,622)	67,201,144	2,315,955	8,836,252	78,347,526	-	78,347,526
Net profit		-	-	-	-	8,264,402	8,264,402	-	8,264,402
Other comprehensive income for the period		-	-	-	-	182,086	182,086	-	182,086
Total comprehensive income for the period		-	-	-	-	8,446,488	8,446,488	-	8,446,488
Acquisition and sale of treasury shares		-	(794,596)	3,485	-	-	(791,111)	-	(791,111)
Dividends paid	21	-	-	-	-	(1,434,949)	(1,434,949)	-	(1,434,949)
Changes in reserves for pension liabilities		-	-	-	962,083	(962,083)	-	-	-
Balance at 31 December 2017		74,797	(875,218)	67,204,629	3,278,038	14,885,708	84,567,954	-	84,567,954
Effect of transition to IFRS 9	3	-	-	-	-	(847,311)	(847,311)	-	(847,311)
Balance at 1 January 2018 restated under IFRS 9		74,797	(875,218)	67,204,629	3,278,038	14,038,397	83,720,643	-	83,720,643
Net profit		-	-	-	-	8,925,320	8,925,320	6,016	8,931,336
Total other comprehensive loss		-	-	-	-	(898,355)	(898,355)	-	(898,355)
Total comprehensive income		-	-	-	-	8,026,965	8,026,965	6,016	8,032,981
Acquisition of subsidiaries	6	-	(4,556,519)	-	1,973,101	(1,973,101)	(4,556,519)	49,517	(4,507,002)
Acquisition and sale of treasury shares	21	-	(2,146,000)	105,474	-	-	(2,040,526)	-	(2,040,526)
Dividends paid	21	-	-	-	-	(1,740,459)	(1,740,459)	-	(1,740,459)
Changes in reserves for pension liabilities		-	-	-	2,525,331	(2,525,331)	-	-	-
Balance at 31 December 2018		74,797	(7,577,737)	67,310,103	7,776,470	15,826,471	83,410,104	55,533	83,465,637

CONSOLIDATED STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 31 DECEMBER 2018**

(in thousands of Russian rubles, unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Interest received	9,282,270	8,614,340
Interest paid	(3,677,399)	(3,160,548)
Gains from the placement of own funds, pension savings and pension reserves	16,154,070	10,616,514
Gains from insurance operations	1,404,175	1,256,463
Proceeds from disposal of repossessed assets	1,042,101	886,008
Cash paid to employees and payroll related taxes paid	(3,929,506)	(2,426,454)
Other receipts	394,848	8,241
Other payments	(1,843,726)	(1,355,483)
Cash flows from operating activities before changes in working capital	18,826,833	14,439,081
Changes in operating assets/liabilities		
Financial instruments at fair value through profit or loss	7,720,221	(17,428,887)
Deposits with banks	230,093	12,591,440
Net investment in leases	(16,397,742)	(13,585,188)
Reverse repurchase agreements and accounts receivable	(11,089,518)	(44,095,095)
Payments received on leases	515,164	377,296
Other assets	332,281	(956,984)
Pension liabilities	(7,818,523)	2,642,897
Including: contributions received due to DIA's transfer of liabilities of JSC "NPF TIP-Fund," JSC "NPF MECHEL-FUND," JSC "First National Pension Fund" (Note 17)	175,641	1,142,274
Other liabilities	316,675	(671,781)
Net cash (used in)/from operating activities before income tax	(7,364,516)	(46,687,221)
Income tax paid	(1,025,312)	(1,214,815)
Net cash (used in)/from operating activities	(8,389,828)	(47,902,036)
Cash flows from investing activities		
Proceeds from sale of property and equipment	14,150	27,969
Purchase of property and equipment	(248,707)	(106,361)
Acquisition of subsidiaries, net of cash acquired (Note 6)	(11,658,747)	-
Dividends received	427,244	-
Proceeds from disposal of a subsidiary	-	1,575,903
Net cash from/(used in) investing activities	(11,466,060)	1,497,511
Cash flows from financing activities		

	2018	2017
Borrowings received	12,321,739	13,800,000
Borrowings repaid	(2,432,461)	(2,288,070)
Bonds issued	9,589,375	2,582,489
Bonds repaid	(7,212,691)	(6,200,000)
Purchase of treasury shares	(4,941,073)	(826,856)
Proceeds from sale of treasury shares	2,900,547	30,503
Dividends paid	(1,740,459)	(1,394,668)
Net cash from financing activities	8,484,977	5,703,398
Effect of exchange rate changes on cash and cash equivalents	(93,663)	42
Effect of changes in allowance on cash and cash equivalents	163,723	-
Net (decrease)/increase in cash and cash equivalents	(11,300,851)	(40,701,085)
 Cash and cash equivalents at the beginning of the period	 14,100,288	 54,801,373
 Cash and cash equivalents at the end of the period (Note 7)	 2,799,437	 14,100,288

Disclaimer

This Report has been prepared by PJSC SAFMAR Financial investments (the "Company").

This Report is for information purposes only and does not constitute an offer or a solicitation of an offer to make any transactions in relation to goods, work or services, as well as securities or other investment instruments.

This Report contains certain estimates and forward-looking statements as to financial performance of specific Company's businesses and other matters concerning their operations. Any and all statements which do not contain historical facts are forward-looking by nature and therefore involve certain risks and uncertainties. There is no guarantee that these statements will prove accurate: actual results in future may differ considerably from the estimates. These statements are based on a balanced assessment of the Company's management. The Company assumes no obligation to update any forward-looking statements.

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Additional Information

GLOSSARY

'000, ths	thousand
bn	billion
BSCF	banking sector consolidation fund
CF	charitable foundation
CIR	cost to income ratio
CLI	civil liability insurance
CMTPL	compulsory motor third-party liability insurance
CPI	compulsory pension insurance
CPP	corporate pension plan
FD	federal district
Free float	free float
GDP	gross domestic product
HCV	heavy-duty commercial vehicles
IA	Internal Audit
IFRS	International Financial Reporting Standards
IPO	initial public offering
KPI	key performance indicator
LC	leasing company
LCV	light-duty commercial vehicles
m	million
M	month
MHI	motor hull insurance
MPC	mortgage participation certificate
NAV	net asset value
NIL	net investments in lease
NPF	non-governmental pension fund
NSPP	non-state pension plans
PFR	Pension Fund of the Russian Federation
PPC	personal pension capital
PPP	private pension plan
Q	quarter
RAS	Russian Accounting Standards
Retail	individuals
ROA	return on assets
ROE	return on equity
RUB bn	billions of Russian roubles
RUB m	millions of Russian roubles
SME	small and medium-sized entities
SPO	secondary public offering
SRO	self-regulatory organisation
tn	trillion
VHI	voluntary health insurance

ENERGY CONSUMPTION IN 2018

Energy resource	Volume	Unit	Costs, RUB '000
Electricity	21,587	kWh	197
Motor petrol	13,452	Litre	600

In 2018, no energy resources were used or consumed in addition to those in the table. A responsible approach to natural resource consumption is a top priority for SAFMAR Financial investments. We streamline our resource

and energy management system on a regular basis. The Company and its subsidiaries are firmly committed to reducing their fuel, electricity, heat, paper and water consumption.

APPENDICES

In accordance with the Regulation On Information Disclosure by the Issuers of Issue-Grade Securities No. 454-P dated 30 December 2014, the appendices listed below shall be integral parts of SAFMAR Financial investments' 2018 Annual Report and are available on the following disclosure websites: www.e-disclosure.ru, www.safmarinvest.ru.

APPENDIX 1

Corporate Governance Code compliance report.

APPENDIX 2

Annual consolidated IFRS financial statements for 2018 (with the auditor's report).

APPENDIX 3

Annual consolidated RAS accounting (financial) statements for 2018 (with the auditor's report).

APPENDIX 4

Major transactions approved by Company's governance bodies in 2018.

APPENDIX 5

Interested-party transactions Report for 2018.

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Thank you.