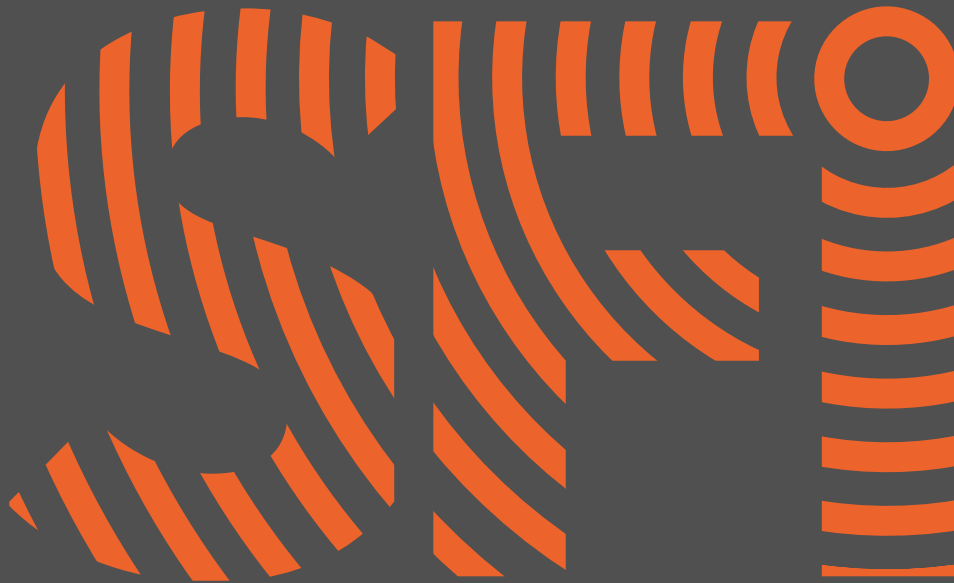




SAFMAR

Financial
investments

Annual Report 2017



Creating Sustainable Leadership

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 2017 IFRS financial statements of PJSC "SAFMAR Financial investments". This Annual Report should be read together with our 2017 audited financial statements (IFRS).

Creating sustainable leadership as the concept of this Report is intended to demonstrate solid, result-oriented performance for both the holding company and its assets, and which reflects the efficiency of the Company's development strategy with respect to its portfolio companies – top-rated leaders of their respective industries. 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 2018.

Approved by General Meeting of Shareholders on 28 May 2018.

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

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.

The Company shall not be held liable for any direct, indirect, consequential, special, punitive or other damages regardless of the type of claim, including, without limitation, claims in contract, negligence or tort which arise in connection with this Report, its contents or otherwise.

The Company's liability to those relying on this Report shall be limited to the maximum extent permitted by the applicable law.

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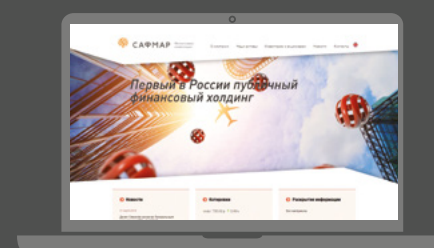
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FOR MORE INFORMATION

please visit our web site at
www.safmarinvest.ru

We are always keen to hear what you think about the 2017 Annual Report of PJSC SAFMAR Financial investments. Please send your comments and feedback to ir@safmarinvest.ru



exceptiona lity

SAFMAR Financial investments is Russia's only public investment company with the focus exclusively on the financial sector. The holding company manages financial assets which include Europlan Leasing Company, SAFMAR Non-Governmental Pension Fund, and 49% of VSK Insurance House.

Our key goal is to effectively manage our asset portfolio to deliver exceptional returns and sustainable growth in capitalisation to benefit our shareholders and investors.

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Business overview and key year highlights

PJSC SAFMAR Financial investments is Russia's diversified public investment holding company focusing on the financial industry launched in 2016. Its core business is investments and management of financial assets.

OUR INVESTMENT PORTFOLIO

consists of Russian companies bringing together leasing, pension and insurance assets, including 100% in Europlan Leasing Company, 100% in SAFMAR Non-Governmental Pension Fund (NPF SAFMAR) and 49% in VSK Insurance House.

For more details on our assets, including business overview, growth plans, financial results and risks, please see **Our assets** section on pages

30–63

The holding company is part of **SAFMAR Group founded by Mikail Gutseriev** one of Russia's largest industrial and financial groups, which comprises industrial, retail and financial companies and manages assets in the area of commercial real estate, construction, development and other assets.

See more information about SAFMAR Group and its assets

14–15

www.safmargroup.ru

ASSET PORTFOLIO¹



¹ As of 31.12.2017.

¹ Was in effect until January 15, 2018.

² Was in effect until December 22, 2017.

MISSION

Our mission is to **invest and effectively manage prospective Russian financial companies and projects** with a significant value creation potential in order to achieve high returns on invested capital.

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 based on long-term growth and sustained increases in dividend yields
- 5 Professional investment 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
- Sustainably growing market capitalisation

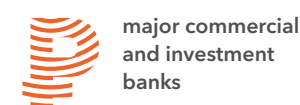
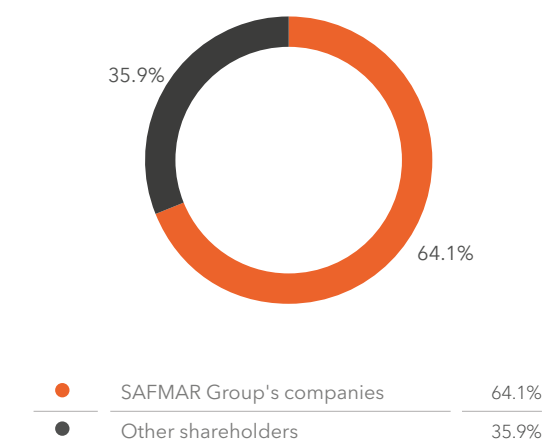
SHARE CAPITAL STRUCTURE

The Company's shares are included in the Level 1 (A1) Quotation List of the Moscow Exchange (ticker code: **SFIN**¹). International Securities Identification Number (ISIN): **RU000A0JVV89**.

The shares of SAFMAR Financial investments are included in the key indices of the Moscow Exchange (MOEX Russia and RTS), as well as its Broad Market Index and the sectoral index for Financials. The Company's ordinary shares are also included into FTSE Global Equity Index Series (Emerging Europe) – FTSE All-World and Small Cap.

The free float stands at 29%². As of 31 December 2017, the Company's shareholders included:

Share capital structure
as at 31 December 2017



major commercial
and investment
banks



investment
funds



public
investment
funds



private
pension funds

FINANCIAL PERFORMANCE (IFRS)

Total income from operations
and finance income

14.1 bn
RUB

Net profit

8.3 bn
RUB

Return on Equity

10%

Earnings per share

74.9 RUB

¹ Effective from 03.01.2018 the ticker was altered resulting from PJSC Europlan's change of its name to PJSC SAFMAR Financial investments on August 21, 2017.

² Free float as at 31.12.2017 was confirmed by the Moscow Exchange at www.moex.com/ru/listing/free-float.aspx.

For more information please see **Strategy**
section on pages
26-29

Key events and developments in 2017

January

- The RAEX (Expert RA) rating agency confirmed the reliability rating of NPF SAFMAR at A++ (extremely high (the highest) reliability), outlook stable.

February

- On 20 February 2017, Europlan's Extraordinary General Meeting of Shareholders resolved to reorganise PJSC Europlan by spinning off JSC Europlan Leasing Company (JSC Europlan LC), PJSC Europlan's wholly owned subsidiary.

March

- Fitch Ratings confirmed VSK Insurance House's Insurer Financial Strength (IFS) rating at BB- on the international scale and assigned it the Issuer Default Rating (IDR) of BB-, with a stable outlook on both.

April

- VSK Insurance House successfully completed the offering of its debut exchange-traded bonds for a total of RUB 4bn. The book building took place on 4 April 2017, with investors submitting over 50 orders and the bond issue being three times oversubscribed. The first coupon rate stood at 11.05% p.a., with the second and third coupons set at a rate equal to the first one. The bond issue offers semi-annual coupons and a 1.5-year put option. VSK's 01P-01 series bonds are available for trading on the secondary market (securities section) of the Moscow Exchange since 11 April 2017.
- Fitch Ratings assigned VSK Insurance House's bonds the BB- rating, in line with the company's credit rating of "BB-" (outlook stable).
- Europlan LC signed a long-term RUB 1.5bn credit facility for 2.3 years with UniCredit Bank.

June

- Starting 16 June 2017, the shares of PJSC SAFMAR Financial investments have been included in the MICEX and RTS indices.
- On 30 June 2017, the holding's leasing operations were spun off into JSC Europlan LC, a subsidiary with a 100% equity participation of SAFMAR Financial investments. Reorganisation proceeded fully in line with the statements made to investors during the public offering in December 2016: ownership of 100% in Europlan LC, 49% in VSK Insurance House and 100% in NPF SAFMAR. On the same day, Fitch Ratings assigned Europlan LC a BB- rating with a stable outlook. The obligations on placed bond issues held by the Company were transferred to Europlan LC on the reorganisation date June 30, 2017. The obligations for unplaced bond issues (series BO-03, BO-04, BO-05, BO-06, BO-08) were also transferred to Europlan LC.

July

- RAEX (Expert RA) assigned Europlan LC a ruA credit rating with a developing outlook.
- The joint research of Fitch Ratings and the Leasing Review magazine recognised Europlan LC as the absolute leader among over 60 non-governmental leasing companies in terms of transaction volume.
- VSK Insurance House closed a transaction to acquire a controlling interest in VSK-Lifeline LLC, which specialises in life insurance. The transaction serves to solidify VSK's market position, enabling it, among other things, to scale up insurance services and expand the product range.

August

- Fitch Ratings confirmed VSK Insurance House's Insurer Financial Strength (IFS) rating on the international scale, the Issuer Default Rating (IDR) and the bond rating of BB-, outlook stable.
- Reorganisation of the holding was completed fully in line with the promises made to investors before Europlan's SPO in December 2016: on 9 August 2017, the Extraordinary General Meeting of Shareholders renamed PJSC Europlan to SAFMAR Financial investments, approved the Company's amended Charter, and appointed Avet Mirakyan, CEO, as the sole executive body.
- On 21 August 2017, the Company completed the legal name change of PJSC Europlan to SAFMAR Financial investments, bringing to a close the long process of building a public financial holding that brings together non-banking financial assets of SAFMAR Group.
- As of the reorganisation date, the Company had 72 separate business units: 25 branches, ten representative offices and 37 additional offices. After the reorganisation process all the business units were re-registered for Europlan LC.
- Europlan LC signed a long-term RUB 10bn credit facility for four years with Sberbank.

September

- Since 18 September 2017, the Company's shares have been included in FTSE Global Equity Index Series (Emerging Europe) – FTSE All-World and SmallCap.
- The Board of Directors set up the Strategy and Risk Management Committee that consists of seven members, with Mikail Gutseriev as Chairman. ¹

For more details on the committee and its members, please see the **Corporate Governance** section on page **103**

October

- RAEX (Expert RA) confirmed the ruA credit rating of Europlan LC, maintaining a developing outlook and the "under supervision" status.
- Fitch Ratings confirmed VSK's Insurer Financial Strength (IFS) rating, the Issuer Default Rating (IDR) and bond rating at BB-, outlook stable.

November

- Europlan LC participated in the 7th Financial Sphere, an award for innovation and achievement in the financial industry, winning the first place in the Leasing for SME category.

December

- On 15 December 2017, the Extraordinary General Meeting of Shareholders of SAFMAR Financial investments resolved to pay dividends on the Company's ordinary registered shares in the amount of One billion four hundred fifty-one million two hundred ninety-one thousand two hundred and eighty-three roubles (RUB 1,451,291,283), or thirteen roubles (RUB 13) per ordinary share. The dividends were paid in full to the nominee shareholder and other shareholders listed on the share register.
- ACRA assigned an A-(RU) rating (outlook stable) to Europlan LC.


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 EVENTS
AFTER THE REPORTING DATE

- RAEX (Expert RA) confirmed the ruA credit rating of Europlan LC, improving the outlook from developing to stable and removing the “under supervision” status. After that, RAEX withdrew the rating due to the expiry of the contract.
- On 15 February 2018, the Board of Directors of SAFMAR Financial investments approved a new dividend policy of the Company. Under the policy, dividends to the SFI shareholders shall be paid upon the receipt of net dividend income from subsidiaries/affiliates. The target dividend payment level amounts to at least 75% of: (1) the net profit according to the Company's RAS accounting (financial) statements; or (2) the free cash flow of the holding company for the reporting year. The choice of the basis for the target dividend payment level is made in favour of the lesser.

For more details please see the **Shareholders and Investors** section on pages **106-109**  www.safmarinvest.ru

- On 15 February 2018, the Board of Directors also reviewed the holding's updated consolidated strategy that sets down the Company's long-term strategic objectives for a period of 3-5 years and the respective strategic priorities.

For more details, please see pages **26-29** 

- Acquisition of NPF Doverie.**
On 23 March 2018, the Extraordinary General Meeting of Shareholders of SAFMAR Financial investments approved the acquisition of a 100% stake in NPF Doverie. As part of consolidating its pension business, SAFMAR Group also plans to reorganise NPF Mospromstroy-Fund, which is part of the group, as a joint-stock company and merge it with NPF SAFMAR.

ACQUISITION OF NPF DOVERIE

On 23 March 2018, the Extraordinary General Meeting of Shareholders resolved to approve the acquisition of NPF Doverie by SAFMAR Financial investments. The integration of NPF Doverie into the holding company and its merger with NPF SAFMAR are part of the Company's strategy that takes into account planned changes in the pension legislation and the regulator's recommendations on consolidating the pension business. It will also enable the Company to make use of synergies at various levels of the combined fund's operations.

MEASURES TO IMPROVE PROFITABILITY
OF THE PENSION BUSINESS

- Legislative initiatives**
The legislative amendments with respect to changes in the fee scheme of NPFs are expected to boost their returns. In addition, the funds' poorer performance due to the suspension of compulsory pension insurance contributions will be partially offset thanks to implementation of the personal pension capital (PPC) concept.
- Regulatory requirements**
The dialogue with the Bank of Russia demonstrates the regulator's desire for pension market consolidation, which would facilitate supervision.
- Synergy effect on operating expenses**
The combined fund will be able to reduce its expenses per client and per asset and, as a result, boost its operating performance compared to peers.

Synergy effect on client retention

The fund merger under the SAFMAR brand and strengthening of the market position will make it easier and less expensive to attract new and retain the existing clients.

Market leadership

The growth of the combined fund's market share by 5 p.p. and an increase in assets under management by over 50% (a top-4 position in the NPF ranking by assets / market share), which plays a big role when it comes to the PPC implementation. Cross-sales potential also grows.

Systemic importance and social responsibility

The fund's client pool counts 4.2 million individuals, which represents grounds for upgrading its status as a systemically important financial institution.

New fee system for non-governmental pension funds

OLD FEE SYSTEM:
The fund's fee is payable out of income from investing retirement savings only, less the fees of the management company and the special depository, but no more than 15%.

13.3%

Non-governmental pension fund fee according to the old fee system in 2017

NEW FEE SYSTEM:

The fund's fee is payable out of income from investing retirement savings, but no more than 15% and 0.75% of Net Asset Value (NAV). The management company fee along with the expenses of the management company and the special depository, are payable from an NPF's own funds. Hence, non-governmental pension funds can regulate fee rates for management companies and special depositories

18.4%

Non-governmental pension fund fee like it would be according to the new fee system in 2017

No 5
by retirement savings



No 6
by insured persons



No 8
by retirement savings

No 7
by insured persons

No 4
by retirement savings



No 4
by insured persons

Market share by retirement savings	+5%
Market share by pension reserves	+6%
Retirement savings	+52%
Number of insured persons	+86%

Our History

PJSC SAFMAR Financial investments is a major financial market player managing leasing, insurance and pension assets, 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").

1999

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

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.

2012

- Acquisition of NPF Obrazovanie i Nauka.

2013

- Acquisition of NPF European Pension Fund.

2014

- Acquisition of NPF Regionfond.

For more details on key events and developments in 2017, please see pages
08-11

2015

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

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.

2017

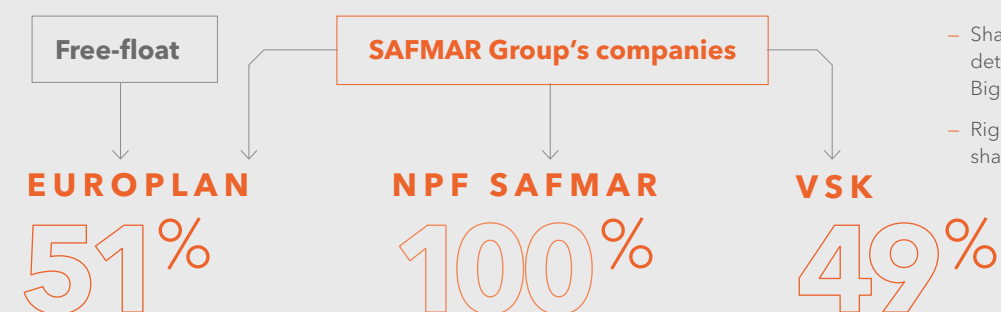
- The holding's leasing operations were spun off into JSC Europlan LC, a subsidiary with a 100% equity participation of SFI.
- PJSC Europlan renamed to PJSC SAFMAR Financial investments, which brings a close the long process of building a public financial holding company. Reorganisation proceeded fully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

MILESTONES LEADING TO THE CREATION OF SAFMAR FINANCIAL INVESTMENTS

STAGE 1

FORMATION OF HOLDING COMPANY STRUCTURE¹

Time period: **from September to December 2016**



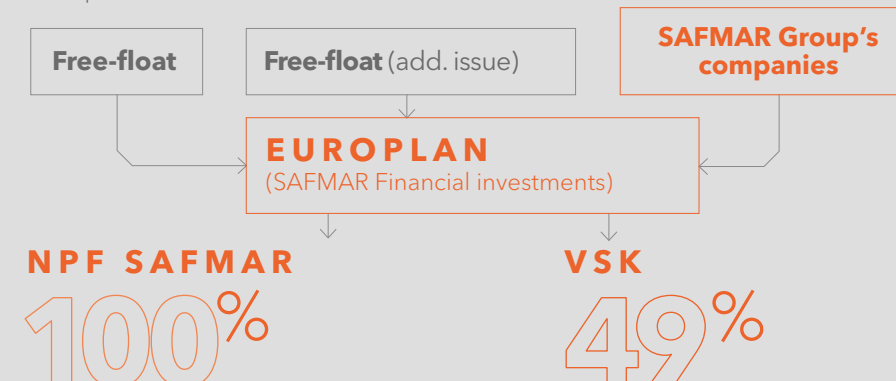
- Structure formation and strategy development for the future holding company.
- Shares exchange ratios were determined by an independent Big Four advisor.
- Rights of creditors and minority shareholders fully observed.

¹ Structure is represented as at 22 December 2016.

STAGE 2

ADDITIONAL SHARE ISSUANCE

Time period: **December 2016**

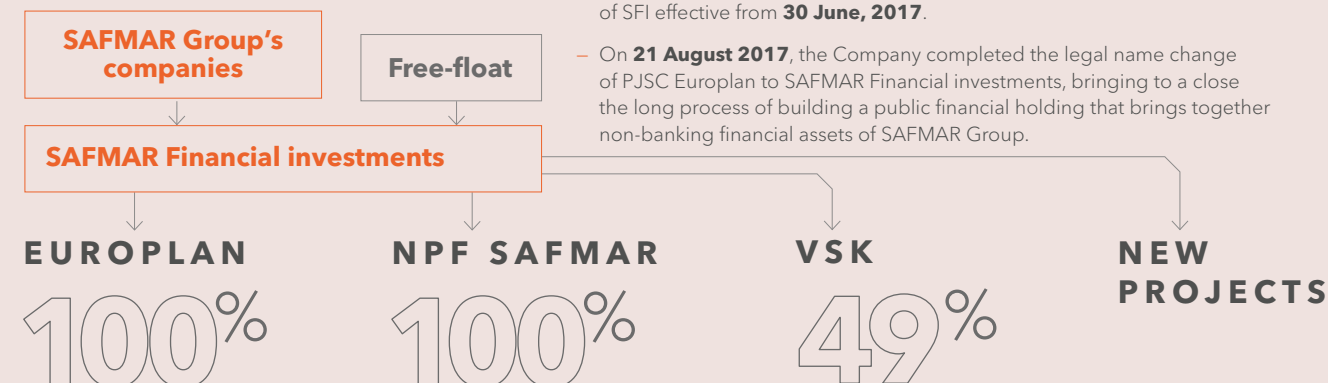


- PJSC Europlan share issuance with payment in shares of NPF SAFMAR, shares of VSK Insurance House and in cash via public offering (SPO).
- Additional capital raised for the expansion of the holding company's investment portfolio.
- Minority shareholder base was significantly expanded.

STAGE 3

TARGET STRUCTURE OF THE HOLDING COMPANY

To achieve its target structure the holding company has completed the spin-off of the leasing business from PJSC Europlan into a separate legal entity (JSC Europlan Leasing Company – Europlan LC) with 100% equity participation of SFI effective from **30 June, 2017**.



On **21 August 2017**, the Company completed the legal name change of PJSC Europlan to SAFMAR Financial investments, bringing to a close the long process of building a public financial holding that brings together non-banking financial assets of SAFMAR Group.

About SAFMAR Group

SAFMAR Financial investments is part of **SAFMAR Group founded by Mikail Gutseriev**, one of Russia's largest industrial and financial groups, which comprises industrial, retail and financial companies and manages assets in the area of commercial real estate, construction, development and other assets.

Controlling shareholders
of SAFMAR Group

Said
Gutseriev



Mikail
Gutseriev



Sait-Salam
Gutseriev



SAFMAR GROUP ASSETS



INDUSTRIAL ASSETS

The Group includes oil companies RussNeft (MOEX: RNFT), Neftisa, FortInvest, companies Russian Coal and Slavkaliy. The Group also manages large national enterprises in the sphere of oil refining and petrochemistry.



HOTEL BUSINESS

The Group owns nine luxury hotels with the unique location in the centre of Moscow and two hotels in CIS.



FINANCIAL ASSETS

Financial non-bank assets of the Group are managed by PJSC SAFMAR Financial investments, public financial holding company (MOEX: SFIN). SAFMAR Financial investments includes Europlan Leasing Company, NPF SAFMAR, and holds 49% stake in VSK Insurance House.

SAFMAR Group also manages NPF Doverie and NPF Mospromstroy-Fond. In compliance with the strategy approved by the Board of Directors in February, 2018, the Group plans to consolidate pension funds based on NPF SAFMAR aiming to maximise synergies.



RETAIL

The Group includes retail chains selling electronics and household appliances - M.Video and Eldorado. PJSC M.Video (MOEX: MVID) will subsequently be renamed to PJSC SAFMAR Retail and consolidates all of the Group's retail assets.



CONSTRUCTION AND DEVELOPMENT

The Group manages large construction company PJSC Mospromstroy and owns 51% stake in large full-service development company A101 that carries out broad-scale housing projects in Moscow.



COMMERCIAL REAL ESTATE

The Group owns business and trading centres (43 centres), including premium locations in Moscow. The Group includes company MLP, leader in the market of warehouse real estate, which manages 1.8 million m² of class "A" warehouses.

For more information about SAFMAR Group please visit website at
www.safmargroup.ru

effective ness

Effective investing and asset management in the financial industry is the key line of business for SAFMAR Financial investments. Last year, we demonstrated solid growth across all key financial indicators, laying a strong foundation for further expansion and reinforcing our strategy.

Strategic report

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Chairman's statement

Dear shareholders,

The reporting year saw us complete quite a number of corporate initiatives that paved the way for a transparent and effective governance framework at SAFMAR Financial investments, a publicly traded company. Today, the Company is supervised by the Board of Directors made of 15 members, including four independent directors, while the CEO leading a team of financial investment professionals is in charge of the operational management.

With its shares on the Level 1 Quotation List of the Moscow Exchange, the Company is committed to the best corporate governance practices as described in this Annual Report. In particular, its disclosures comply with both the listing requirements and the vast majority of recommendations and principles stipulated by the Corporate Governance Code. The Board of Directors has approved a dividend policy which sets the target payout ratio at no less than 75% of the holding company's net profit under RAS or free cash flow for the reporting year, and decided on the Company's strategic priorities going forward. In 2018, the Company's subsidiaries and controlled entities will be finalising their own segment strategies.

Even with all the corporate transformations taking place in 2017, we kept managing the operations of our subsidiaries and controlled companies as efficiently as before. Despite the challenging and volatile macroeconomic environment during the year, total profit of the companies that SAFMAR Financial investments holds in its portfolio more than doubled, hitting RUB 10.7bn, while the holding company's profit amounted to RUB 8.3bn. These strong financial results

enabled us to pay an interim dividend for 9M 2017 of RUB 13 per share.

Our performance in the reporting year highlights the effectiveness of the framework we have in place to manage our subsidiaries and controlled companies operating in the fastest growing and most promising segments of the financial market. In their turn, they have delivered solid results that translate in solid return on capital.

In 2018 and in the coming years, we are planning to build on our success and keep the rapid pace which our subsidiaries and controlled entities have achieved to boost their market share, while exercising stringent risk controls.

Our current market position and robust performance in 2017 open up inorganic growth opportunities for assets in our portfolio through acquisitions and investments in companies that operate in the financial segments we prioritise.

The quality of our corporate governance coupled with strong operating performance will serve to boost investor confidence, making us well-positioned to raise funds in the capital markets to maximise the value of the assets we manage and, ultimately, the Company's value for shareholders. This year, the Company's management team will keep working to enhance the efficiency of our portfolio companies, while also stepping up efforts on the capital markets by reviewing opportunities to expand the portfolio of assets under management in line with our strategic priorities.

On a final note, I would like to assure our shareholders that the Company will take every step to deliver against its goals and build up value for investors. I would like to wish a successful and productive year of 2018 to the teams of SAFMAR Financial investments and our subsidiaries.



Oleg Vyugin

Chairman of the Board of Directors
PJSC SAFMAR Financial investments

10.7 bn
RUB

Total profit of the portfolio companies

8.3 bn
RUB

Holding company's net profit

CEO's statement

Dear shareholders,

As a matter of fact, this is the first Annual Report to be released by SAFMAR Financial investments. In August 2017, we changed the name of PJSC Europlan completing a months-long legal process to establish it as a basis for a new holding company, SAFMAR Financial investments, which consolidated SAFMAR Group's financial assets, including Europlan Leasing Company, SAFMAR Non-Governmental Pension Fund (NPF SAFMAR) and a 49% stake in VSK Insurance House.

The complex organisational process builds on two simple ideas. First, we strongly believe in the rapid growth of the non-bank financial sector. Financial products that have long become an integral part of leasing, insurance and private pension schemes in Western countries are now starting to gain traction in Russia unlocking a remarkable potential for development in these areas. Second, we think that combining our financial assets into a single entity will make it easier for us to identify prospective synergies between the businesses. These include leveraging single technology solutions and governance mechanisms for similar processes and creating added value to customers of each of the holding's assets by offering them the right products from other subsidiaries.

Looking for cross-business synergy opportunities is our strategic objective that we will embark on in the near future. To that effect, in February 2018, the Board of Directors approved a new strategy outlining the holding's long-term targets and development priorities. Annual reports, though, are intended to throw light on corporate achievements over the past year, and here we have every reason to be proud of ourselves.

For **Strategy** overview, please see pages
26-29

Europlan asserted its leadership in the car leasing market. The company maintains a close focus on this segment continuously developing relevant competencies to add new contracts to its portfolio and boost business profitability. These efforts brought a well-deserved net profit of RUB 2.85bn, up 4% y-o-y. Such strong results came on the back of a record number of contracts – over 30,000, which translated into more than RUB 70bn worth of cars purchased for Europlan's customers.

VSK's financial performance also exceeded our most optimistic expectations, with the Insurance House reaffirming its strong position in the motor, accident and supplementary health insurance markets, while also working to expand its presence in the life insurance segment. As a result, its profit rose by more than 1.5 times to RUB 6.0bn, while its gross written premiums increased by 39% to RUB 73.8bn and its equity reached RUB 20.3bn. Importantly, a balanced approach to portfolio expansion and a fairly conservative risk management policy did not prevent Europlan and VSK from delivering brilliant results, as both companies pay close attention not only to the growth metrics, but also to the quality of portfolio, which puts them among the most efficient players in their respective industries.

We are also pleased with how NPF SAFMAR did in 2017. A continued moratorium on transferring insurance contributions to non-governmental pension funds effectively impeded market growth in the reporting year. This shifted the fund's focus onto retaining its leading positions by the volume of pension savings under management and the number of customers, and its efforts paid off, with the fund's customer pool counting 2.3 million of insured persons and members as at the year end. The upcoming merger with Doverie and Mospromstroy-Fund NPFs will also enable SFI to strengthen the position of its pension business against the backdrop of legislative changes that are to come into effect in 2018 to give a fresh impetus to the NPF market.

Operational excellence of the companies making up SAFMAR Financial investments helped boost financial performance of the entire holding, which ended the year with RUB 8.3bn of net profit, showing 2.5 times increasing y-o-y. As at 31 December 2017, our assets reached RUB 316.9bn and our liabilities – RUB 232.3bn. Company's equity amounted to RUB 84.6bn, with ROE at 10%. Thanks to our strong financials, in 2017, we were able to pay RUB 1.45bn of interim dividends for 9M 2017. On top of that, February 2018 saw us approve the dividend policy that provides for a high target payout ratio.

For an overview of **Financial results**, please see pages
64-66

For more details on our **Dividend policy**, please see page
108

Overall, our first year of operation as holding company we proved to be a success. With our assets managed efficiently and generating a profit, we have a clear vision of where we are going and how to get there. We did a lot to increase our shareholder value, providing a solid foundation for the future growth of our business, which we see as our biggest achievement for the year. I would like to thank you all for having confidence in our team and assure you that the management will make every effort to further enhance the past year's remarkable performance.

Company's equity as of 31.12.2017

84.6 bn RUB

Company's assets as of 31.12.2017

316.9 bn RUB



Avet Mirakyan

Chief Executive Officer
PJSC SAFMAR Financial investments

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

Economic value

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.

Corporate value

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

Value for 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 **74-79**

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

The reorganisation completed in June 2017 helped us strengthen our financial position with a consistent increase in profits and improvements in operating performance across the portfolio.

For more details, please see
Our History and **Our Assets** sections on pages
12-13 and **30-63**
www.safmarinvest.ru



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.

For more details, please see
the **Risk Management** section on pages
67-73



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.



INTELLECTUAL CAPITAL

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

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.

VALUE CREATION

ECONOMIC
VALUE

Net profit

8.3 bn
RUBFor more details, please see **Financial
Results** section on pages
64-66Interim dividends
for 9M 20171.45 bn
RUB

Return on Equity

10%

CORPORATE
VALUE

Employees

>7 ths

VALUE FOR CUSTOMERS
AND COMMUNITYDedicated charitable
programmes

>60

Dedicated
financing1.9 bn
RUBAreas of charitable
activities covering
26 Russian regions

9

STRATEGIC PRINCIPLES



STAKEHOLDERS

shareholders

financial
institutionspotential
investors

employees

suppliers
and business
partnersnon-governmental
organisationsgovernment
agencies

media



OUR ASSETS

CAR LEASING

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

No1

car leasing
company
in Russia

Europlan Leasing Company

Leasing portfolio

40.6 bn
RUB

Net profit

2.9 bn
RUB

INSURANCE

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

top-10

insurance
company
in Russia

VSK Insurance House

Gross written premiums

73.8 bn
RUB

Net profit

6.0 bn
RUB

PENSION INSURANCE

- Compulsory pension insurance
- Corporate and individual pension plans

No5

in the compulsory
pension insurance
market

NPF SAFMAR

Pension assets under management

204 bn
RUB

Net profit

1.8 bn
RUB

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.

As the holding company was only established in late 2016, throughout 2017 the management team kept working on the 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 cross-business 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 disposal of assets

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.

LONG-TERM 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.

For more details, please visit our corporate web site at www.safmarinvest.ru

KEY INVESTMENT CONSIDERATIONS

Target industry	Focus on the financial industry only
Target segments	Leasing, insurance, pension funds, financial technologies, etc., and companies complementary to the holding company's other businesses
Geography	Mainly Russian and CIS-based 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

Strategy (continue)

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	Strategy ^❶	Value creation
	Largest car leasing company in Russia	<ul style="list-style-type: none">– Maintaining leadership in the car leasing market.– High ROE (>25% by 2022).– 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-.	Business growth Dividends
	Leasing portfolio		
	In-house client pool		
	Prospective corporate clients		
	Effective lease contracts		
	Highly diversified leasing portfolio		
	Universal insurance company with a balanced product portfolio	<ul style="list-style-type: none">– Maintaining and improving the company's position in the lucrative insurance segments.– High ROE (>25%).– High dividend yield (payout ratio at >50%).– Monetising synergies with the holding company's other businesses, cross sales.– Maintaining international rating of at least BB-.	Business growth Dividends
	Client base: retail accounts		
	Client base: companies		
	Total gross written premiums		
	Regional network		
	NPF SAFMAR is engaged in compulsory pension insurance (CPI) and non-state pension plans (NSPP) ^❶	<ul style="list-style-type: none">– Maintaining and improving the company's position in the CPI and NSPP segments.– 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-.	Business growth Dividends ^❷
	Retirement savings		
	Pension reserves under management		
	Client base: under CPI		
	Client base: under NSPP		

❶ According to the Bank of Russia as at 30.09.2017. At the time of preparation of this Report, the NPF market statistics for the year-end of 2017 was not published, but the assets data for 9M and 12M usually differ slightly due to the nature of the annual cycle of the pension business.

❶ 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

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

leadership



SAFMAR Financial investments combines best-in-class leasing, insurance and pension assets that are top-rated leaders of their respective industries.

We aim to maximise the business efficiency by building up a diversified high-performance investment portfolio with a high value creation potential, including through synergies among portfolio businesses and promotion of trust-based and reliable long-term relations with all clients and partners.

Our Assets

32 **Eurolan Leasing Company**

42 **NPF SAFMAR**

54 **VSK Insurance House**

Europlan Leasing Company

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2017

Europlan is a car leasing business

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.

Its own client pool comprises approximately 20,000 current clients (with ca. 44,000 leasing contracts currently in effect) and 72,000+ reliable corporates that signed leasing contracts in the past. In addition, its leasing portfolio shows low concentrations on major lessees, which mitigates the portfolio default risk. In 2017, Europlan secured 30,000+ car leasing contracts across Russia and all leasing segments (up 55% y-o-y).



Alexander Mikhaylov
CEO, Europlan
Leasing Company

"Europlan Leasing Company has been successfully operating for 19 years. In 2017, we beat our numerous records, delivering outstanding results and strengthening our leadership in the Russian car leasing market. Our strong performance was acclaimed by our customers and partners, and was recognised by high ratings from Fitch Ratings, RAEX and ACRA.

Europlan's team did a great job over the year, closing 30,000 plus car and equipment leasing deals worth over RUB 72.5bn, while maintaining superior quality of the portfolio".

ASSET AT A GLANCE

Owned by SAFMAR Financial investments **100%**

Company Management:

– Chief Executive Officer Alexander Mikhaylov
– Chairman of the Board of Directors Avet Mirakyan

No 1
in the Russian car leasing market

Leasing portfolio **RUB 40.6bn+**

Clients **72,000+**

Employees **1,900**

Leasing portfolio concentrations on major lessees based on IFRS pre-provision net investment balance in 2017, %



>30 ths

car and equipment leasing deals closed in 2017

MARKET OVERVIEW

The Russian leasing industry has been around for approximately 20 years. From 2011 to 2017, 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 2017

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 2017, sales of new passenger cars and light-duty commercial vehicles went up by 11.9%, while those of new heavy-duty vehicles surged by 50.4%, based on AUTOSTAT data. Against this backdrop, the number of car leasing deals in 2017 is expected to increase.

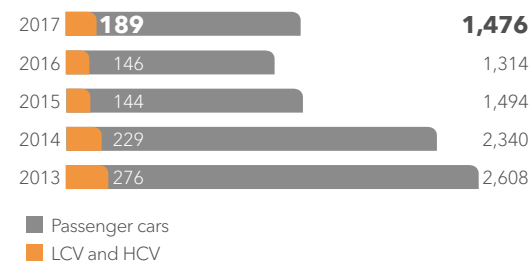
The car sales data over the past 15 years show an ever increasing potential for the market to return to pre-crisis sales in the mid-term. Prior to 2008, passenger car sales enjoyed double-digit growth rates, outpacing many European markets, including Eastern Europe. Sales of international



brands scored a CAGR of over 65% between 2003 and 2007. In 2009, car sales suffered a drastic decline across all segments before hitting a new high in 2012. 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.

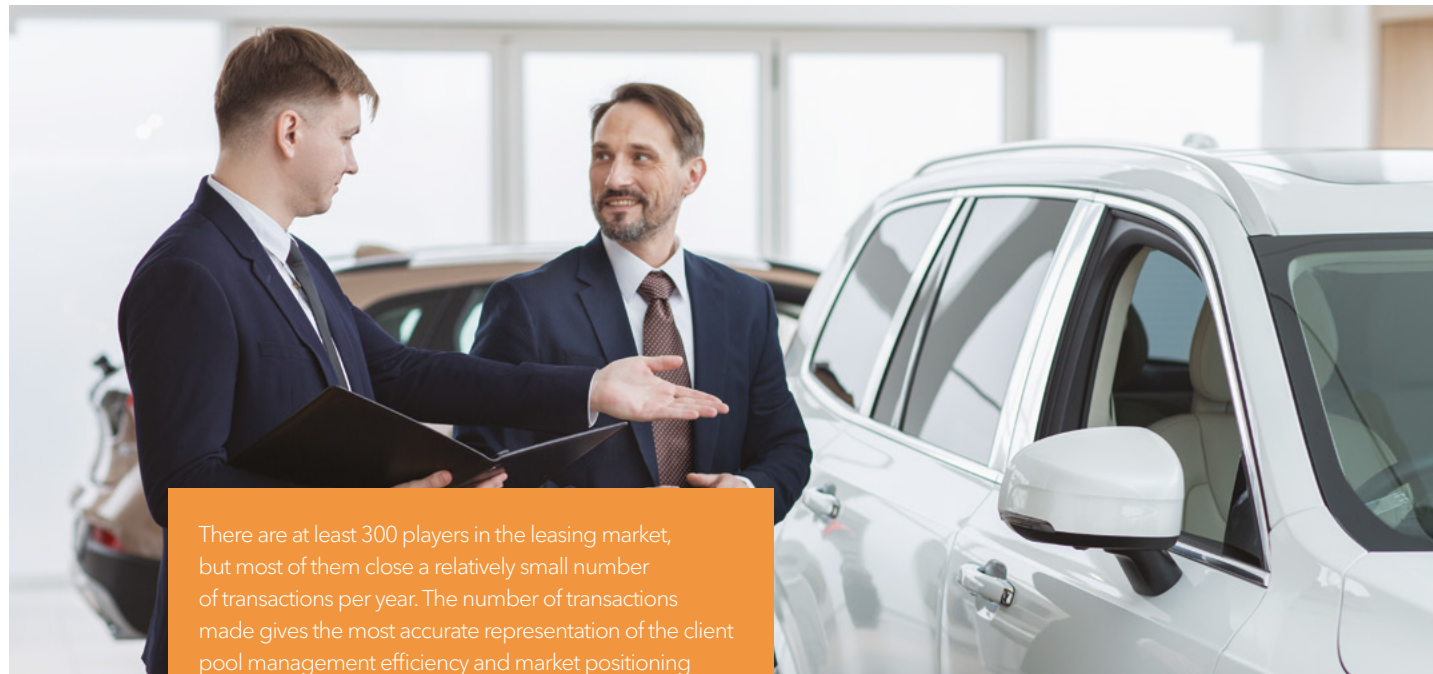
In 2018, PricewaterhouseCoopers expects the segments of passenger cars and light-duty commercial vehicles to expand by 12% each, with heavy-duty vehicles likely to add another 10%. The five-year forecast projects the market's upward trend, which began in 2017, to continue. In 2018-2022, the average annual growth of sales is forecast at 8% assuming that economic recovery continues, investments in production and new technologies improve, and no external shocks occur.

Car sales in Russia in 2013-2017, '000 vehicles



Source: AUTOSTAT.

EUROPLAN'S POSITION IN THE CAR LEASING MARKET



There are at least 300 players in the leasing market, but most of them close a relatively small number of transactions per year. The number of transactions made gives the most accurate representation of the client pool management efficiency and market positioning of a company, and by that parameter Europlan ranks among the market leaders, if not number one, invariably outpacing its peers at all times when the surveys were conducted.

New business volume grew by 62% to

72.5 bn RUB

as compared to 2016

Top 10 leasing companies by the number of transactions made for 9M 2017

No.	Leasing company	Number of transactions
1	Europlan	20,988
2	VTB Leasing	20,276
3	VEB-Leasing	11,358
4	Baltic Leasing Group	10,157
5	Sberbank Leasing Group	8,646
6	RESO-Leasing	7,804
7	Element Leasing	6,265
8	Major Leasing	5,004
9	CARCADE Leasing	4,044
10	CONTROL Leasing	3,737

Source: RAEX (Expert RA).

The RAEX (Expert RA) research focuses on the volumes of new business for 9M 2017 (the value of leased

assets, excl. VAT, in leasing transactions) across car leasing companies as follows:

Top 10 leasing companies by volume of new business for 9M 2017

Car leasing

No.	Leasing company	The volume of new business, m
1	Europlan	39,079
2	Sberbank Leasing Group	29,264
3	VTB Leasing	27,706
4	VEB-Leasing	23,549
5	Baltic Leasing Group	16,253
6	RESO-Leasing	15,398
7	Alfa Leasing Group	11,361
8	CARCADE Leasing	8,542
9	Element Leasing	8,274
10	Major Leasing	7,548

Source: RAEX (Expert RA).

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 Europlan Leasing Company (JSC Europlan 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 2017, 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 expanded by 48% to RUB 40.6bn;
- Income from operations grew by 10% to RUB 6.8bn;
- Net profit totalled RUB 2.85bn, up 4% y-o-y;

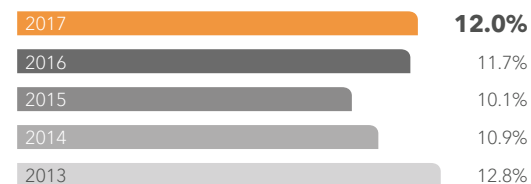
- Equity stood at RUB 9.1bn as at 31 December 2017²;
- Cost to income ratio (CIR) as at 31 December 2017 totalled 56%, one of the lowest ratios in both the car leasing segment and the wider financial industry;
- ROE and ROA as at 31 December 2017 were 25.3% and 6.7%, respectively;
- Debt to equity ratio came in at 3.4x;
- Net interest margin (NIM) totalled 12%.

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.

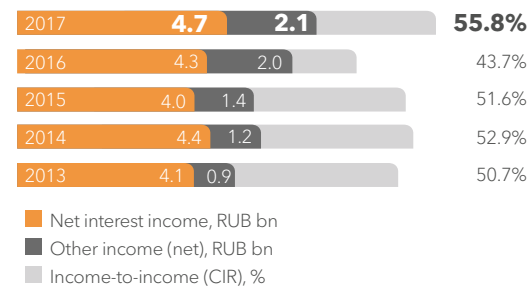
² Approximately RUB 7bn of equity was transferred to SAFMAR Financial investments, the parent company, following the spin-off of Europlan Leasing Company in June 2017.

Europlan also made exceptional progress generating new business volumes. In 2017, new business in the car leasing segment totalled RUB 72.5bn, up 62% y-o-y, including passenger cars (RUB 35.8bn) and heavy-duty vehicles (RUB 31.3bn). Europlan's new business in the SME segment totalled RUB 66.9bn (including all regions and segments), up 62% y-o-y.

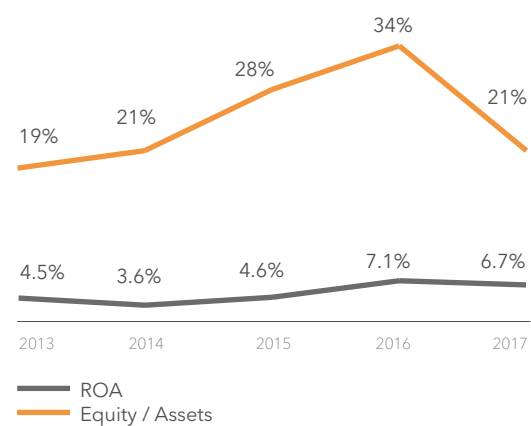
Net interest margin, %



Operating income and efficiency



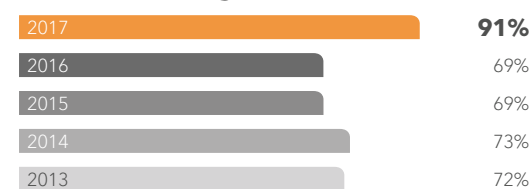
Return on assets and equity ratio, %



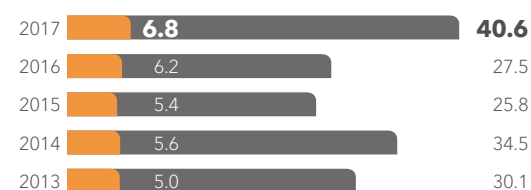
LEASING PORTFOLIO

The high-margin leasing portfolio made of net investment in the lease (NIL) accounts for 91% of assets in the leasing business. In 2017, NIL rose by 48% y-o-y to RUB 40.6bn. In addition, IFRS income from leasing operations reached RUB 6.8bn in 2017, up 10% 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 performance¹, bn RUB



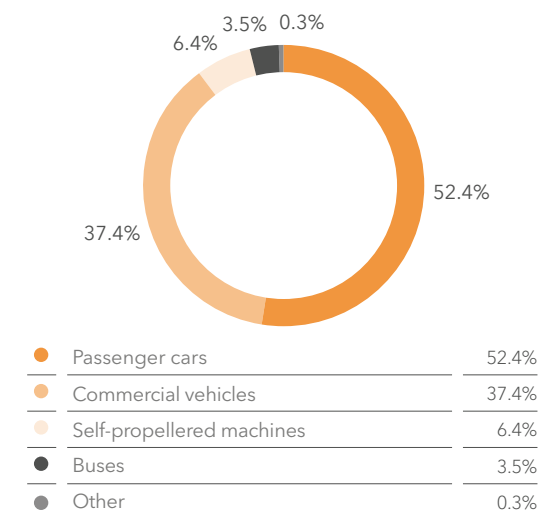
91%

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



LEASING PORTFOLIO BY THE TYPE OF LEASED ASSETS IN 2017

In 2017, the leasing portfolio was represented mostly by liquid assets, including passenger cars (52.4%), commercial vehicles, such as LCV, MCV, HCV and trailers (37.4%), self-propelled machines (6.4%), buses (3.5%), and other assets (0.3%).

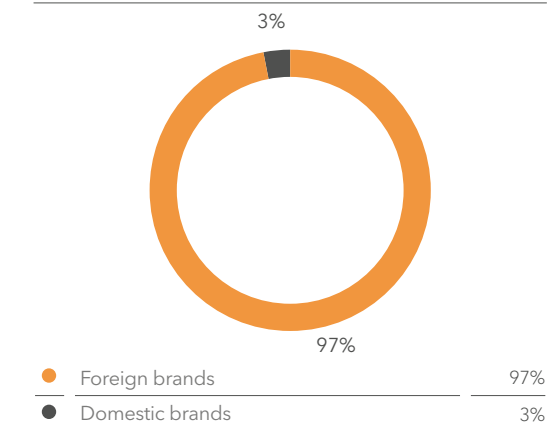


≈ 81%

of the investment portfolio accounted for small business

PASSENGER CAR LEASING PORTFOLIO BY BRAND IN 2017

The passenger car leasing portfolio is dominated by foreign brands (97%), with domestic brands accounting for ca. 3%.



In 2017, 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 2018, the company intends to keep working on the retention of repeat customers as one of its core priorities.

As at the end of 2017, the leasing portfolio was reasonably diversified to include lessees from different revenue categories, industries and geographies. Small businesses accounted for ca. 81% of the investment portfolio.



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 2013-2017 IFRS financial statements.

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 2017, 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

Europlan 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.

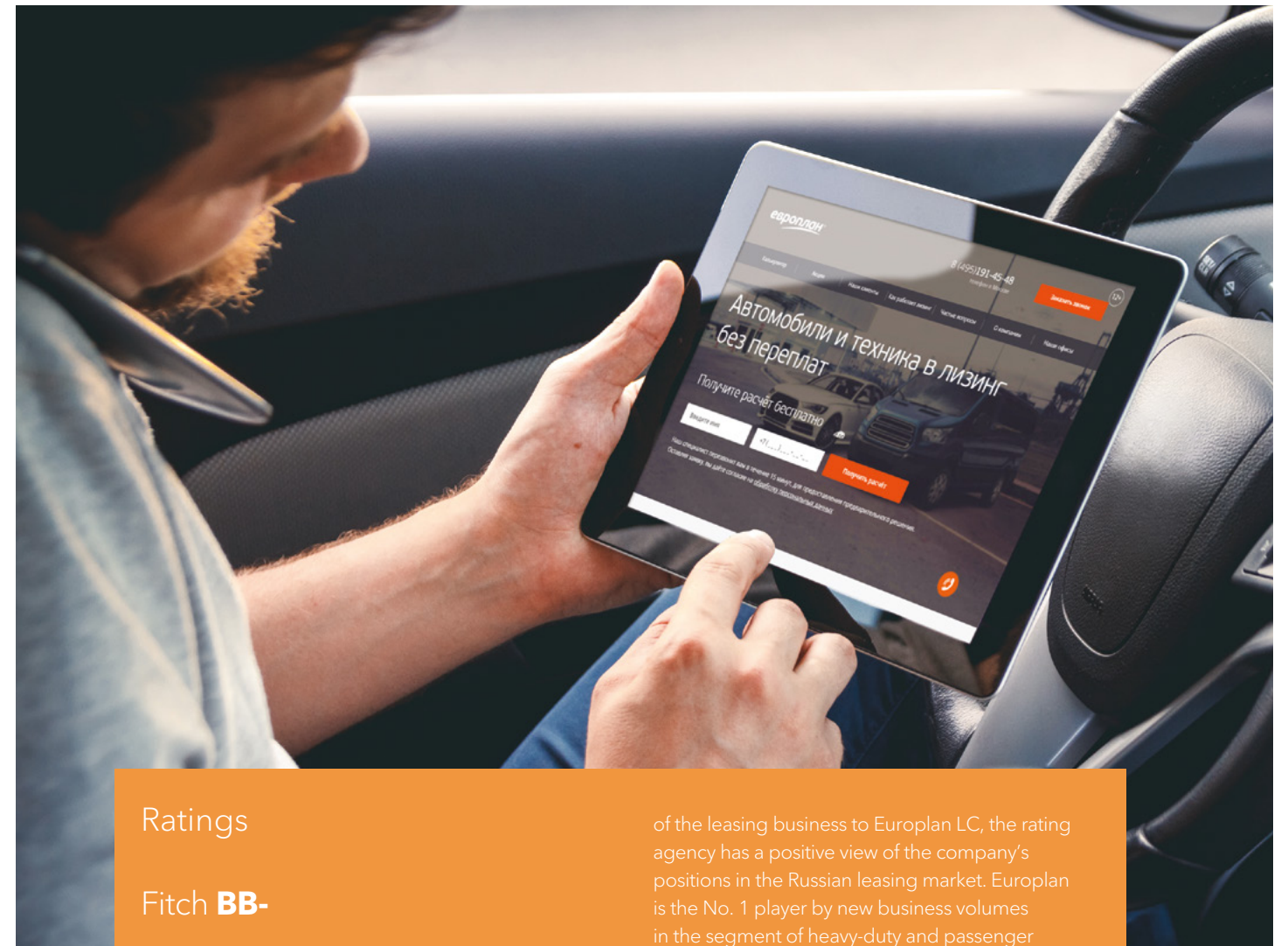
The existing leasing portfolio is balanced in such a way that the average maturity and structure of the company's payables exceed those of current lease payments. Hence, due to its strong liquidity

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 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-**

On 30 June 2017, Fitch Ratings assigned a BB-rating (stable outlook) to Europlan LC, a separate legal entity that was established on the same day as a result of the corporate spin-off. The rating action followed the completion of the company's reorganisation. According to a press release by Fitch, the long-term Issuer Default Rating (IDR) reflects the company's significant franchise in the Russian auto leasing sector, so far conservative management and risk appetite, and sound financial metrics.

Expert RA **ruA**

In July 2017, RAEX (Expert RA) assigned Europlan LC a ruA credit rating with a developing outlook. The rating is based, inter alia, on Europlan's recent reorganisation: following the transfer of 100%

of the leasing business to Europlan LC, the rating agency has a positive view of the company's positions in the Russian leasing market. Europlan is the No. 1 player by new business volumes in the segment of heavy-duty and passenger vehicles, according to RAEX (Expert RA) rankings for 2016. In January 2018, the rating was confirmed at ruA, with the status "under supervision" removed, and subsequently withdrawn due to the expiration of the contract.

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

In December 2017, Analytical Credit Rating Agency (ACRA) assigned Europlan LC an A-(RU) rating with a stable outlook. It was the first rating that Europlan LC received from ACRA.

NPF SAFMAR

BUSINESS OVERVIEW AND KEY HIGHLIGHTS 2017

SAFMAR Non-Governmental Pension Fund (NPF) is a pension management division of SAFMAR Group.

Established in 1994, NPF SAFMAR (formerly Dobroe Delo, in 2004 was included into Raiffeisenbank Group and renamed NPF Raiffeisen, in 2015 – renamed NPF SAFMAR) is one of Russia's largest private pension funds. It is ranked fifth in terms of retirement savings under management, and sixth in terms of its client base.¹

NPF SAFMAR offers compulsory pension insurance (CPI) services and non-statutory pension plans (NSPP).

The Fund accumulates pension contributions and retirement savings, invests such retirement savings and pension reserves, performs accounting functions, calculates and pays insurance pensions to the insured and non-statutory pensions to NSPP holders, and transfers cash value of insurance pensions and non-statutory pensions to successors and assigns of pension holders.



Denis Sivachev
CEO, NPF SAFMAR

"NPF SAFMAR is one of the leading players in the Russian pension market. Even though 2017 proved to be a challenging year for the fund and the industry on the whole, we succeeded in resolving all the challenges, and closed the year with a positive result bringing income to our customers. We keep working to boost the efficiency and transparency of our business, while also gaining foothold in the compulsory pension insurance and private pension markets".

Assets under management of NPF SAFMAR exceed RUB 200bn², including more than RUB 190bn in CPI contributions and ~RUB 9bn accumulated under corporate and private pension plans.

MARKET OVERVIEW

RUSSIAN PENSION MARKET IN 2017

The year 2017 has been the most challenging year for the national pension industry since the 2008 financial crisis. The industry was affected by a number of negative factors. Regulatory risks have grown substantially, and so have reputation risks of private pension funds.

In 2017, the market was influenced by the following trends and events:

– **Instability in the financial sector triggered by financial rehabilitation of major banks and consolidation of the pension market around government-owned banks and organisations**

In 2017, Russia faced the largest ever bank rehabilitation cases, which hit the entire financial sector, including the pension market. The Bank of Russia provided a rescue package for three major private banks – Otkritie Bank, B&N Bank and Promsvyazbank. Rescue efforts are administered by the Banking Sector Consolidation Fund (BSCF), a division of the Bank of Russia. The situation around Otkritie had the strongest influence on the market. In August 2017, rescue measures taken by BSCF brought three large pension funds

under control of the government. They were NPF LUKOIL-GARANT, NPF Elektroenergetiki and NPF RGS, all related to Otkritie. According to the decision made in early 2018, the three pension funds will be merged to form the largest player on the pension market with nearly RUB 580bn in assets.¹

As a result, the Bank of Russia, which is also a pension market regulator, will become a beneficiary of Russia's largest private pension fund. Following 2017, the share of government-related pension funds increased from 24% to 47% of the CPI market.

NPF market consolidation (CPI)

Group/NPF	Retirement savings		Clients	
	RUB '000	Market share	Number of people	Market share
Otkritie	521,896,783	21.7%	7,717,050	22.5%
NPF LUKOIL-GARANT	248,280,339	10.3%	3,501,825	10.2%
NPF RGS	181,980,291	7.6%	3,157,498	9.2%
NPF Elektroenergetiki	91,636,153	3.8%	1,057,727	3.1%
Sberbank	466,153,379	19.3%	6,819,773	19.8%
NPF Sberbank	466,153,379	19.3%	6,819,773	19.8%
GAZFOND PN	443,362,271	18.4%	6,233,147	18.1%
NPF GAZFOND PN	443,362,271	18.4%	6,233,147	18.1%
O1	306,067,001	12.7%	4,649,832	13.5%
NPF BUDUSHCHEYE	291,761,970	12.1%	4,433,865	12.9%
NPF Socialnoe razvitie	6,986,837	0.3%	89,777	0.3%
NPF Obrazovanie	5,539,884	0.2%	108,750	0.3%
NPF Telekom-Soyuz	1,778,310	0.1%	17,440	0.1%
SAFMAR	288,540,062	12.0%	4,225,071	12.3%
NPF SAFMAR	190,392,533	7.9%	2,267,492	6.6%
NPF Doverie	98,147,529	4.1%	1,957,579	5.7%
VTB	142,655,051	5.9%	1,540,942	4.5%
NPF VTB	142,655,051	5.9%	1,540,942	4.5%
Rossium/MKB	76,404,073	3.2%	1,153,102	3.4%
NPF Soglasie	75,334,429	3.1%	1,139,920	3.3%
NPF OPK	1,069,644	0.0%	13,182	0.0%
Renova	35,382,881	1.5%	427,134	1.2%
NPF BOLSHOJ	33,485,879	1.4%	408,807	1.2%
NPF Vladimir	1,897,002	0.1%	18,327	0.1%
Other NPFs	129,518,389	5.4%	1,595,323	4.6%
Total	2,409,979,890	100%	34,361,374	100%

Source: Bank of Russia data as at 30 September 2017.

¹ Bank of Russia data as at 30 September 2017.

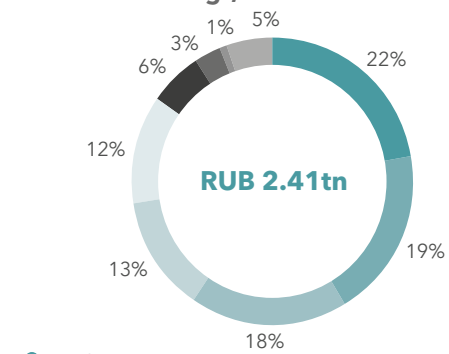
ASSET AT A GLANCE

Owned by SAFMAR Financial investments	100%
Company Management:	
– Chief Executive Officer	Denis Sivachev
– Chairman of the Board of Directors	Mikhail Gutseriev
Assets under management	RUB 204bn
Clients	2.3m
Employees	300

¹ Bank of Russia data as at 30 September 2017. No data on the private pension market for 12M of 2017 was available as at the date of this Report; it should be noted, though, that the annual pension cycle makes differences between assets for 9M and 12M insignificant.

² Fund's accounting data as at 31 December 2017.

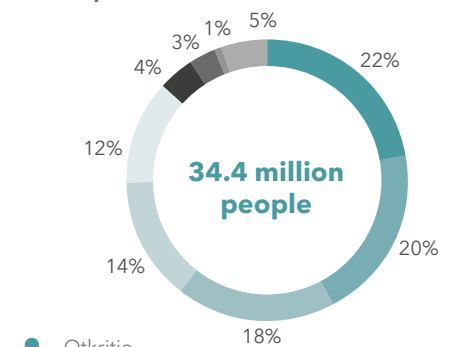
Retirement savings, %



● Otkritie	22%
● Sberbank	19%
● GAZFOND PN	18%
● O1	13%
● SAFMAR	12%
● VTB	6%
● Rossium	3%
● Renova	1%
● Other NPFs	5%

Source: Bank of Russia data as at 30 September 2017, consolidated as per Groups.

Clients, %



● Otkritie	22%
● Sberbank	20%
● GAZFOND PN	18%
● O1	14%
● SAFMAR	12%
● VTB	4%
● Rossium	3%
● Renova	1%
● Other NPFs	5%

Source: Bank of Russia data as at 30 September 2017, consolidated as per Groups.

– Primary channel for CPI client acquisition blocked

In the second half of the year, the Pension Fund of the Russian Federation suspended operations of the so-called Certification Centres, a primary source of clients' applications to private pension funds. As a result, the number of new clients acquired by private pension funds decreased almost twofold, down from 12 million applications in 2016 to 6.3 million during the 2017 savings transfer campaign, with only 4.9 million applications approved.

– Moratorium on new retirement savings extended till 2020

The moratorium (new contributions are not accumulated on personal accounts with private pension funds, but allocated to finance the budget deficit of the Pension Fund of the Russian Federation) was first declared as a one-off measure in 2014 and has been regularly extended since then. In October 2017, the moratorium was extended till 2020. 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, and the country's population grows older.

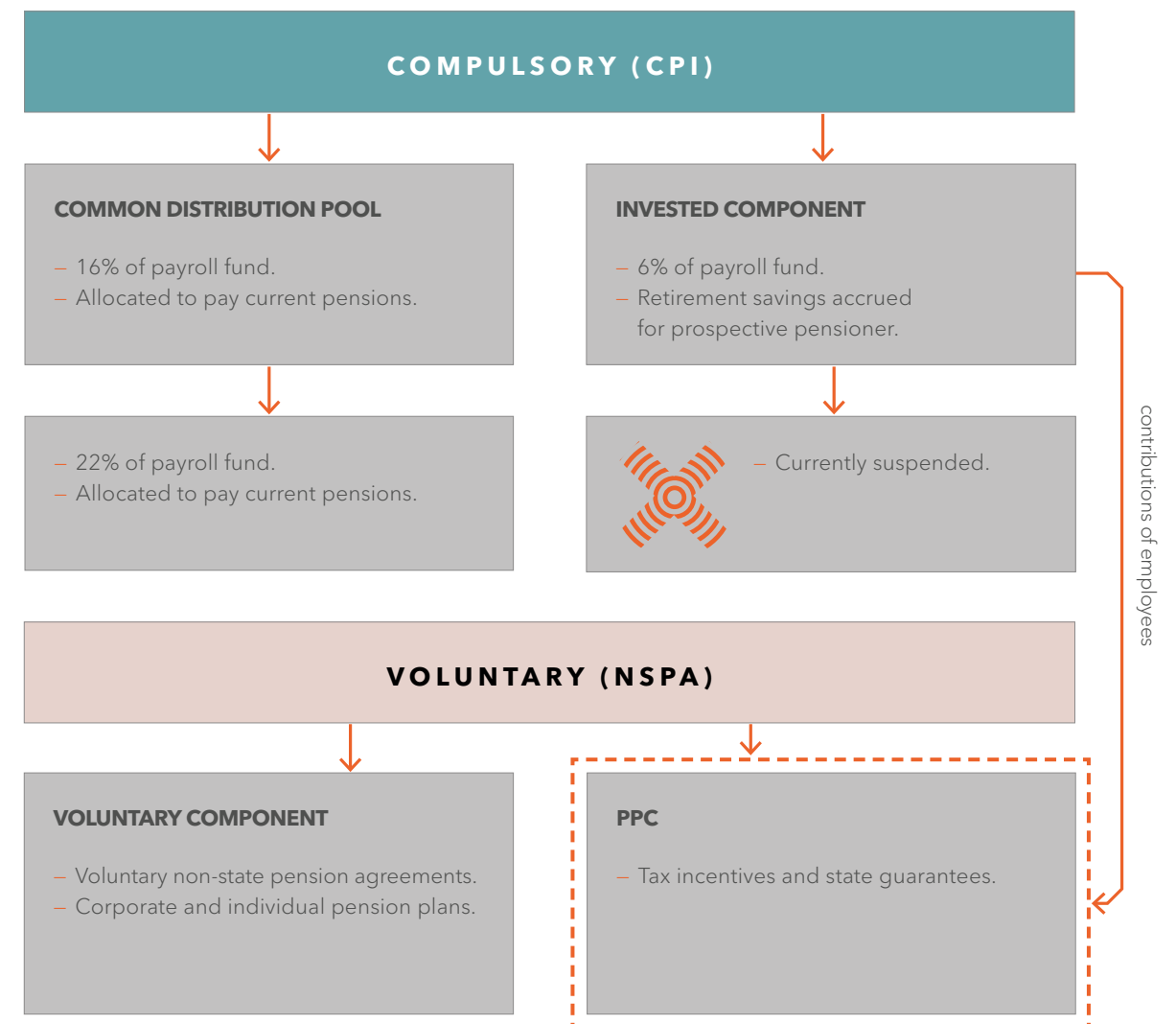
– Risk of changing key pillars of the personal pension capital concept

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 2019. The concept suggests that all pension contributions (22% of the payroll) made by employers go 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.

Key pillars on which the PPC system is built are as follows: automatic subscription (employees are subscribed to the PPC system and make deductions from their salaries by default), tax benefits, and guarantees extended to cover PPC. **When adopted, the PPC concept will increase the inflow of funds to private pension funds and make the industry more attractive**

for investors. In 2017, members of the State Duma and government officials initiated a discussion about replacing the automatic subscription with automatic registration (employees do not make PPC contributions by default). This will significantly decrease people's involvement in the PPC system.

The scheme of the individual pension capital system



– Discussions around raising the retirement age

Discussions around raising the retirement age continue. It is planned to be gradually raised by 6 months annually to 65 years for men and 63 years for women. Some experts believe that this decision may be made at the beginning of a new political cycle.

– Stronger competition for new clients

In recent years, leaders in new acquisitions were Sberbank Private Pension Fund and VTB Pension Fund as they could sell pension plans at offices of their parent banks. It is becoming increasingly difficult for private funds to compete with pension funds owned by government banks.

– Stricter market regulations and requirements

In 2017, the Bank of Russia tightened its eligibility requirements for investment assets to make private pension funds diversify and improve their portfolios. Simultaneously, required disclosures were made more extensive and more detailed. Starting from 2018, private pension funds are also

liable as fiduciaries. In 2017, the Bank of Russia approved a stress scenario and stress testing methodology for private pension funds. Their application becomes obligatory from February 2018. Stress testing is used to assess financial stability of funds in critical situations, identify sources of potential trouble and avert them.

Pension market influencing factors

2004	2014	2015	2016	2017	2018-2019
Invested component launched	NPFs reorganised as joint stock companies 2 years suspension of compulsory pension insurance contributions	Guarantee scheme launched Pension market consolidation	New personal pension capital (PPC) concept presented by the Bank of Russia and Ministry of Finance	PPC concept discussions Stress testing for private pension funds launched Moratorium on new retirement savings extended till 2020	Pension market consolidation and governmentisation trends PPC system developed and launched
Moratorium on new retirement savings					

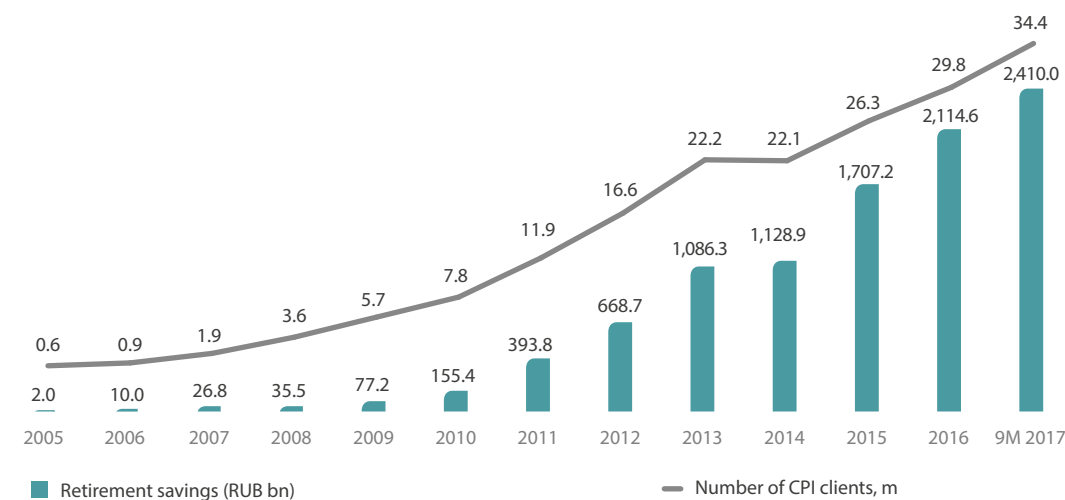
EVOLUTION OF THE PENSION MARKET

CPI MARKET EVOLUTION

In 2017, retirement savings in private pension funds increased by RUB 295bn to exceed RUB 2.4tn.^①

Total assets under management of private pension funds reached RUB 3.54tn, while total pension assets in the national economy (including insurance pensions managed by the Pension Fund of the Russian Federation) stood at RUB 5.3tn, or 6.3% of GDP.

CPI system historical dynamics



Source: Bank of Russia

① Bank of Russia data as at 30 September 2017.

During the 2017 savings transfer campaign, people filed a total of 6.3 million applications^①, with 4.9 million of them approved:

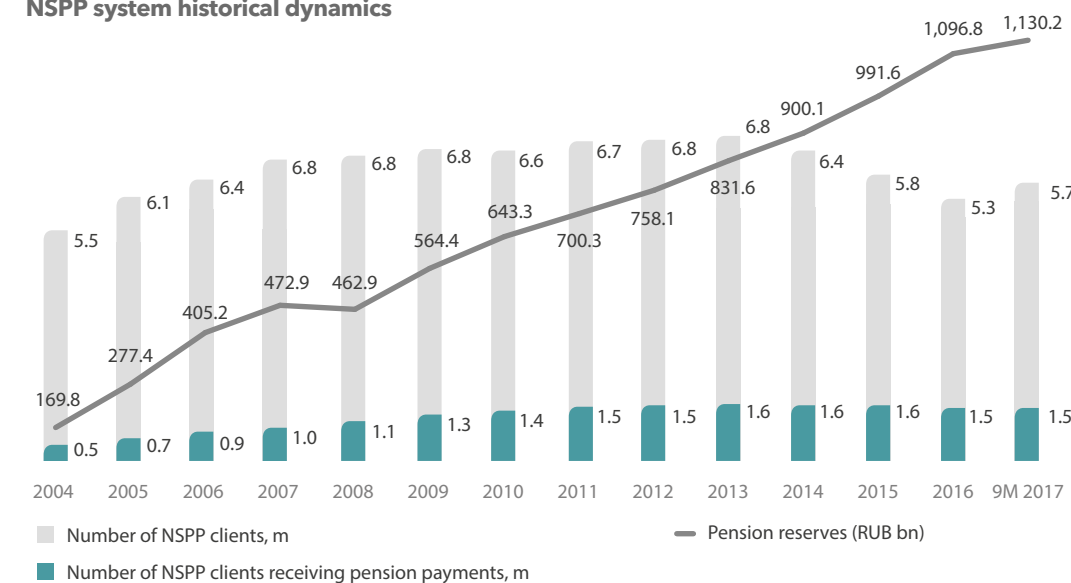
- 2.85 million people transferred their savings from the Pension Fund of the Russian Federation to private pension funds (58.2%)
- 1.96 million people migrated from one private fund to another (40.1%)
- 76,700 people returned from a private fund to the Pension Fund of the Russian Federation (1.6%)
- 9,100 people chose another asset management company (0.1%)

Following the 2017 savings transfer campaign, the Pension Fund of the Russian Federation will transfer RUB 162.9bn in retirement savings to private pension funds, PFR management announced.

NSPP MARKET EVOLUTION

In 2017, total pension reserves held by Russian private pension funds grew 3% to RUB 1.13tn.^② This is more than three times less than in 2016 when the NSPP market increased 11%.

NSPP system historical dynamics



Source: Bank of Russia.

Russian businesses demonstrate a gradual change of attitude towards corporate pension plans (CPP). Increasingly more employers view CPPs as an effective tool of long-term employee motivation and a means to improve the company's reputation as a socially responsible employer. However, economic challenges over the last few years made businesses cut their payroll expenses and corporate pension plans, which affects the NSPP market.

2017 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 are already working on individual pension products and services.

① Pension Fund of the Russian Federation data.

② Bank of Russia data as at 30 September 2017.

NPF SAFMAR'S POSITION IN THE PENSION MARKET



Based on its position in the pension market, NPF SAFMAR is ranked¹:

The average client account among the Top-5 private funds in the CPI market	1 st
Retirement savings under management	5 th
Client base	6 th

Market share by retirement savings under management (9M 2017)

Sberbank NPF	19.3%
GAZFOND PN NPF	18.4%
Budushcheye NPF	12.1%
Lukoil-Garant NPF	10.3%
Safmar NPF	7.9%
RGS NPF	7.6%
VTB NPF	5.9%
Doverie NPF	4.1%
Elektroenergetiki NPF	3.8%
Soglasie NPF	3.1%

GROWTH PLANS

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.

A stronger market position will be supported by consolidation of SAFMAR Group's pension assets in NPF SAFMAR. In March 2018, NPF SAFMAR shareholders approved a deal to acquire a 100% stake in NPF Doverie.

For more details on the acquisition of **NPF Doverie**

see pages
10-11

When the deal is closed, pension assets of the joint fund will reach RUB 300bn (up 52%) while the number of clients will increase to 4.3 million people (up 86%)¹. As a result of the merger, the Fund will cut its operating expenses and introduce uniform standards of customer service.

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.

FINANCIAL PERFORMANCE

IFRS FINANCIAL HIGHLIGHTS

Key indicators of NPF SAFMAR's financial performance as at 31 December 2017 are presented below:

- Assets: RUB 220.7bn vs RUB 213.4bn as at 31 December 2016.
- Liabilities: RUB 196.7bn vs RUB 191.2bn as at 31 December 2016.
- Equity: RUB 24bn vs RUB 22.2bn as at 31 December 2016.

- Net profit: RUB 1.8bn (+10%).
- Income less expenses from investment activities: RUB 6.6bn.

The full version of 2017 IFRS financial statement of NPF SAFMAR is available in the **Disclosures** section of the corporate website at www.npfsafmar.ru

Assets and equity, RUB bn

Equity	24.0
	22.2
Assets	220.7
	213.4
■ as of 31.12.2017 ■ as of 31.12.2016	

Liabilities, RUB bn

2017	196.7
2016	191.2

Net profit, RUB bn

2017	1.8
2016	1.6

24^{bn}
RUB

Equity as at 31 December 2017

¹ These figures do not include retirement savings transfers during the 2017 transfer campaign since relevant data was not made available by the Bank of Russia during the preparation of this Report.

¹ Bank of Russia data as at 30 September 2017.

INVESTMENT ACTIVITIES

NPF SAFMAR is a conservative investor with a primary goal of maintaining its financial capital. In 2017, retirement savings and pension reserves were invested via five asset management companies selected by the Fund. Their solid expertise in pension assets minimises multiple financial and operational risks associated with pension investments.

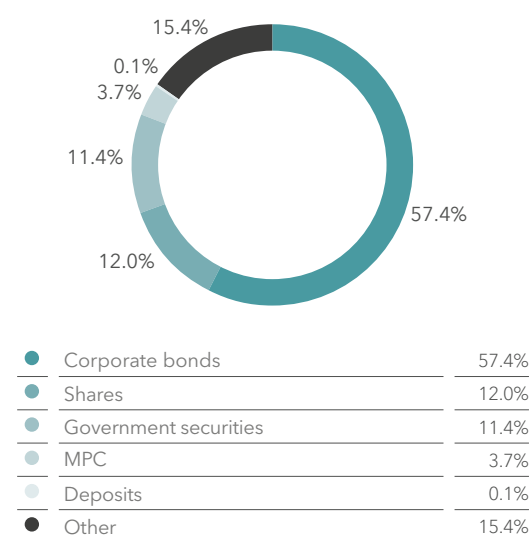
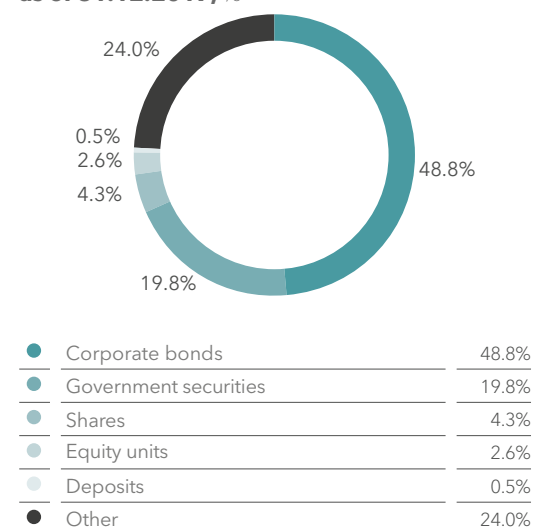
Companies managing retirement savings:

- Kapital Asset Management;
- IQG Asset Management;
- Investment Management Company;
- REGION Asset Management;
- Raiffeisen Capital.

Companies managing pension reserves:

- Raiffeisen Capital;
- IQG Asset Management;
- Investment Management Company.

In 2017, return on invested retirement savings and pension reserves amounted to 3.47% and 9.22% respectively¹. According to Rosstat, inflation in Russia in the reporting period was only 2.52%.

Portfolio structure of retirement savings
as of 31.12.2017, %Portfolio structure of pension reserves
as of 31.12.2017, %Return on invested retirement savings
and pension reserves accrued to client
accounts in 2017

Following 2017, CPI clients earned a return of 1.81% on their savings, while NSPP clients earned 8.65%.

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. For instance, NPF SAFMAR clients have earned 33 to 43% for the past five years and 96 to 123% since the 2008 financial crisis. The difference in returns is associated with actual returns of four pension funds taken over by NPF SAFMAR in August 2016, including NPF Raiffeisen (renamed NPF SAFMAR in December 2015), NPF European Pension Fund, NPF REGIONFOND and NPF Obrazovanie i Nauka.

Calculations of the weighted average return cover two time periods – before 28 August 2016 when the takeover by NPF SAFMAR was completed (clients earned returns in separate funds) and after 28 August 2016 (clients earned returns in a single, reorganised fund). Return on invested pension reserves is attributable to a conservative investment strategy.

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

Fund	2009	2010	2011	2012	2013	2014	2015	2016	2017	Accumulated 2009-2017
SAFMAR	10.5	10.8	0.0	6.8	6.3	3.7	8.8	8.7	1.8	73.7
Obrazovanie i Nauka	15.2	14.9	7.0	10.1	8.1	5.1	12.8	9.5		122.9
REGIONFOND	15.5	10.5	1.8	7.1	7.4	2.3	9.5	9.6		86.8
European Pension Fund	18.2	27.1	6.7	6.6	6.6	10.9	9.7	8.3		144.3

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

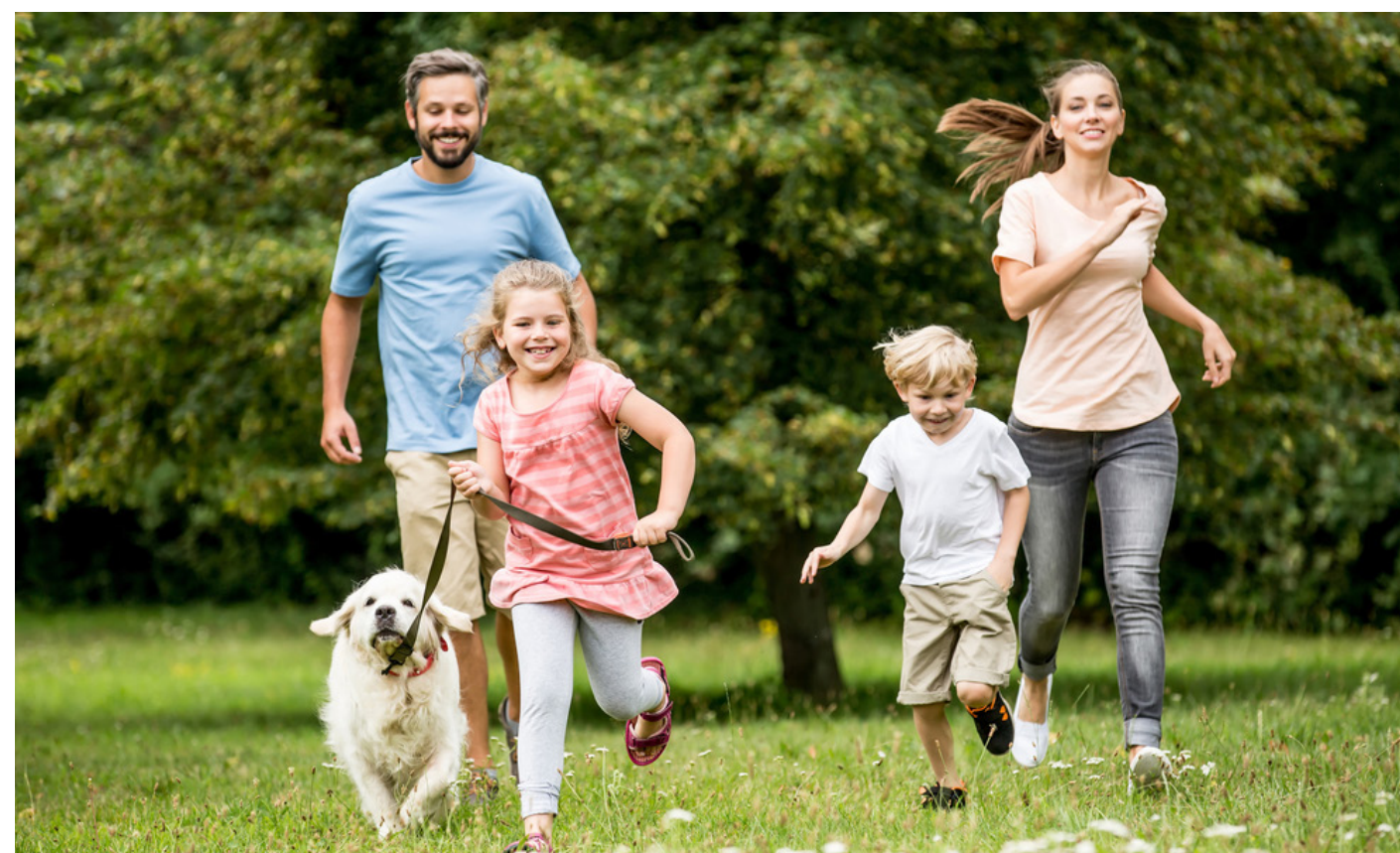
Fund	2009	2010	2011	2012	2013	2014	2015	2016	2017	Accumulated 2009-2017
SAFMAR	15.5	6.6	0.8	6.1	6.4	5.6	10.8	10.4	8.7	96.6
Obrazovanie i Nauka	15.3	10.1	4.9	10.1	7.6	7.6	11.3	8.5		122.8
REGIONFOND	10.8	11.5	4.0	8.7	8.0	5.0	11.6	9.0		109.3
European Pension Fund	6.0	8.0	6.7	6.3	7.4	6.0	12.2	10.8		99.8

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.



¹ Return on investment before fees to management companies, specialised depository and the Fund.

KEY RISK FACTORS

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

- 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.
- 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).

Currently, the Fund employs the following risk management techniques:

- Avoidance, or discarding decisions that might result in unacceptable risk exposures or modifying/replacing business processes in whole or in part. Risk avoidance includes amendments to strategic objectives or operating processes.
- Control/mitigation, or introducing procedures that reduce the risk probability and/or decrease the amount of loss for the Fund (risk limiting/hedging techniques, etc.).
- Transfer of risks to a third party in whole or in part. Risk transfer decisions depend on a risk-related business activity, its importance and financial value.
- Acceptance of risks in whole or in part if all available risk mitigants are not economically feasible compared to losses that may be incurred as a result of the risks. The management is aware of the risk and its nature and deliberately elects not to take any steps to minimise it.

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 portfolio.
- Timely perform compliance procedures, specifically by monitoring pension industry laws, and comply with regulatory orders.
- Take other measures deemed necessary.

NPF SAFMAR set up the Risk Management Department which continuously identifies, assesses, analyses, monitors and manages the Fund's risks, and prepares risk reports for the Board of Directors, Risk Management Committee and management of the Fund. The Fund complies with regulatory requirements for NPF risk management, including the Bank of Russia's Directive No. 4060-U On Risk Management Requirements for Non-Governmental Pension Funds.

In 2007, NPF SAFMAR took part in a pilot project initiated by the Bank of Russia to design and introduce stress-testing procedures for non-governmental pension funds.

The Fund also continued its joint project with Oliver Wyman, an international consulting firm, to adopt its recommendations for the key risk management areas to further roll out and streamline relevant international best practices.



VSK Insurance House

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2017

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 20 million retail clients and more than 300,000 corporate customers in Russia. The company's regional distribution network has over 400 offices in all Russian regions, which enables VSK to effectively support insurance contracts across the country.

In 2017, the company demonstrated solid operating performance, with the combined loss ratio below 100% and return on equity of 34.1%.

ASSET AT A GLANCE

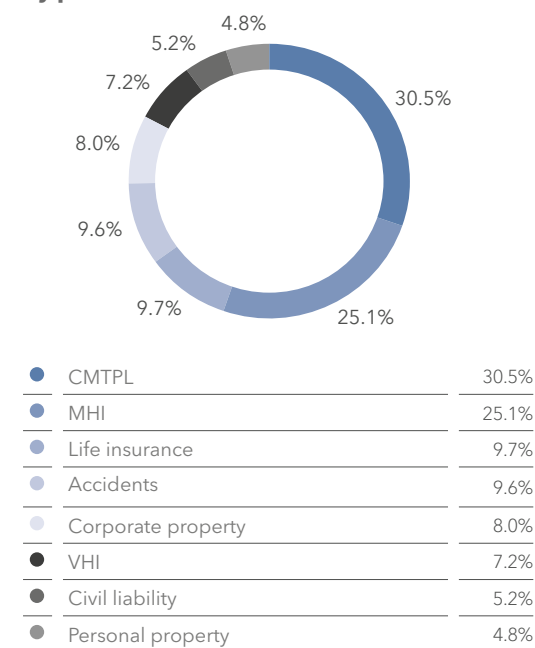
Owned by SAFMAR Financial investments	49%
Company Management:	
– Chief Executive Officer,	Oleg Ovsyanitsky
Chairman of the Management Board	
– Chairman of the Board of Directors	Sergey Tsikalyuk
Retail clients	20+ million
Corporate customers	300,000
Employees:	5,979
Advanced insurance services	100+



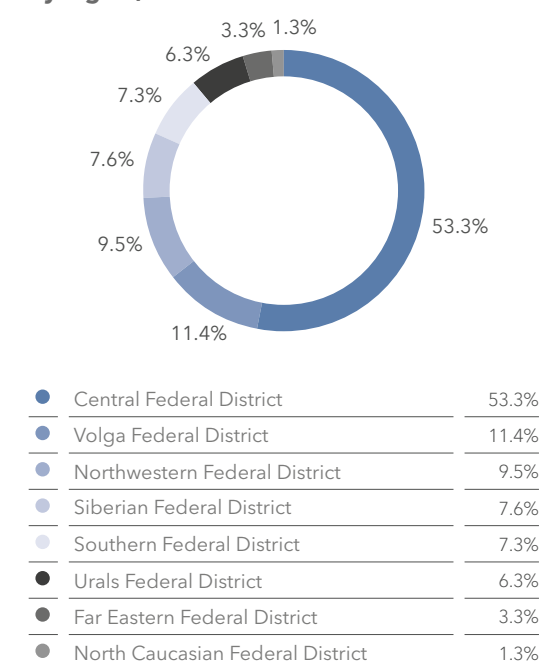
Sergey Tsikalyuk
Chairman
of the Board
of Directors,
VSK Insurance
House

"2017 was another year of sustainable growth for VSK Insurance House, which reaffirmed its position as one of Russia's top insurers. Its premium income rose by 36%, well above the market average. The company came as one of leaders in all key types of insurance, including motor, health, property and liability insurance."

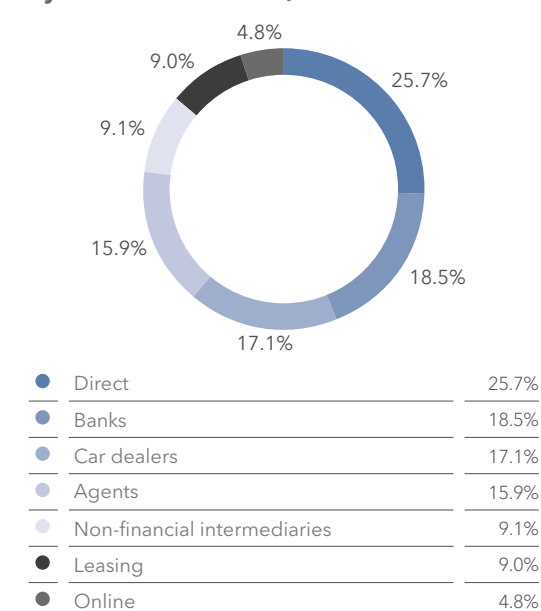
VSK insurance portfolio structure by product, %



VSK insurance portfolio structure by region, %



VSK insurance portfolio structure by distribution channel, %

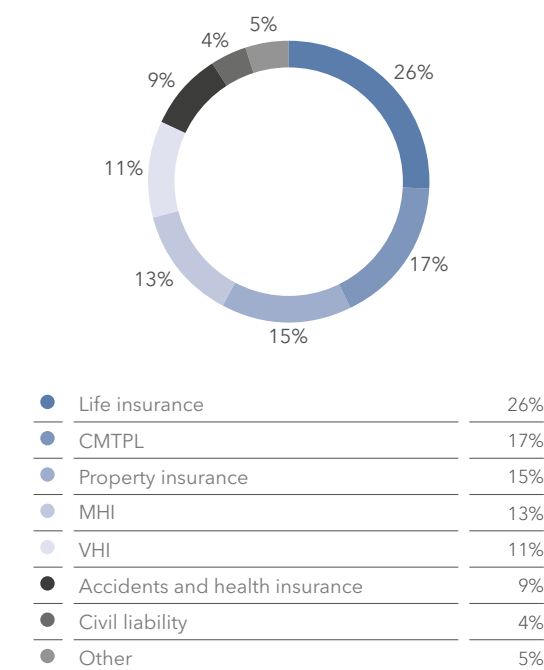


MARKET OVERVIEW

INSURANCE MARKET IN 2017

In 2017, growth in the insurance market slowed down, with the gross premium income totalling RUB 1,278bn, up 8.2% y-o-y. Gross premiums mainly came from life insurance (RUB 332bn), CMTPL (RUB 222bn), property insurance (RUB 191bn), motor hull insurance (RUB 162bn), VHI (RUB 140bn), accidents and health insurance (RUB 121bn) and civil liability insurance (RUB 50bn). With life insurance excluded, the insurance market shrank by 2.0%.

Insurance market structure in 2017, %



In absolute terms, the insurance market grew by RUB 97bn in 2017 with 100% of that growth coming from life insurance (RUB 116bn). The marked rise in insurance contributions in the segment was driven by strong sales of investment life insurance as banks were eager to offer this product against the backdrop

of falling deposit rates. 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 2018, shaking up the life insurance segment and the insurance market at large.

In 2017, the key types of insurance saw the following changes¹: CMTPL market fell by 5.2%, life insurance was up by 53.7%, personal property insurance added 11.6%, VHI decelerated to 1.6%, accidents and health insurance expanded by 12.3%, contributions in the depressed motor hull segment fell by 4.8%, and in corporate property insurance, the decline was as much as 10.7%.

There is a lot of discussion in the industry regarding upcoming liberalisation of CMTPL tariffs. In 2017, the Ministry of Finance released a draft law that is viewed by the regulator as the first step towards liberalised CMTPL pricing. According to various estimates, the transition to market-based tariffs might take from 2 to 3 years.

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 2017, the online channel brought 12.8% of CMTPL insurance premiums, compared to a share of a less than 1% in 2016.

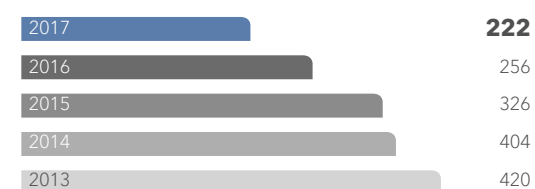
Motor hull insurance sees stronger demand for (and supply of) telematics services, i.e. smart insurance that offers discounts to safe drivers. A major impetus for the smart insurance market might well come from Era-Glonass, an electronic safety in-vehicle system that collects data on road accidents. Today, the Russian market of smart insurance is at its inception stage, with penetration of smart motor hull insurance standing at a mere 3% for 2017.

The law on telemedicine became another milestone of 2017. Remote healthcare advice will be a major driver for the retail VHI market, including in regions across Russia.

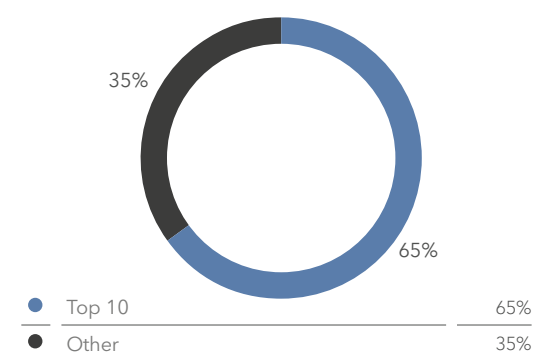
Consolidation is still ongoing in the insurance market, with the number of players consistently shrinking. As at the end of 2017, 222 insurance companies were listed in the Unified State Register of Insurers, with 34 firms pulling out of the market in just one year. The reasons for that include failure 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 2017, the Top 10 insurers dominated 65% of the market.

Number of players in the insurance market



Insurance market consolidation, %



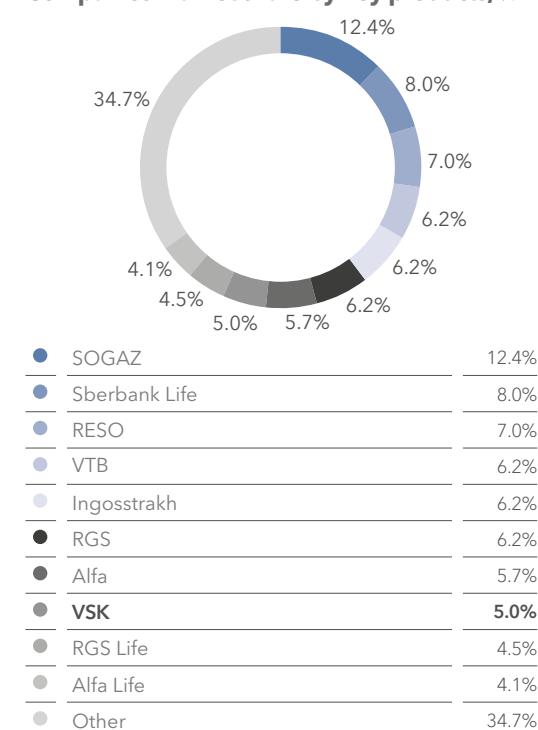
VSK POSITION IN THE INSURANCE MARKET¹



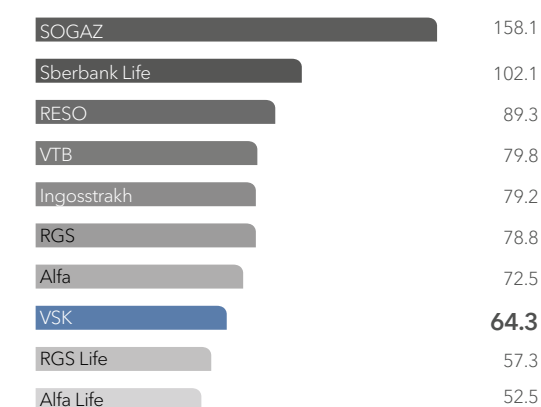
With a market share of 5.0%, VSK Insurance House has invariably ranked among the Top 10 Russian insurance companies across all key products, including as a Top 5 motor insurer with a share of 9.7% and 10.3% in CMTPL and MHI, respectively. Following the results of 2017 VSK-Liniya Zhizni LLC demonstrated record growth rates and ranked 7th company on the life insurance market (+18 positions year-on-year).

In 2017, VSK ranked 8th by gross premium income in Russia, which was up 19.6% y-o-y.

Companies market share by key products, %



Top 10 insurance players by gross written premiums, RUB bn

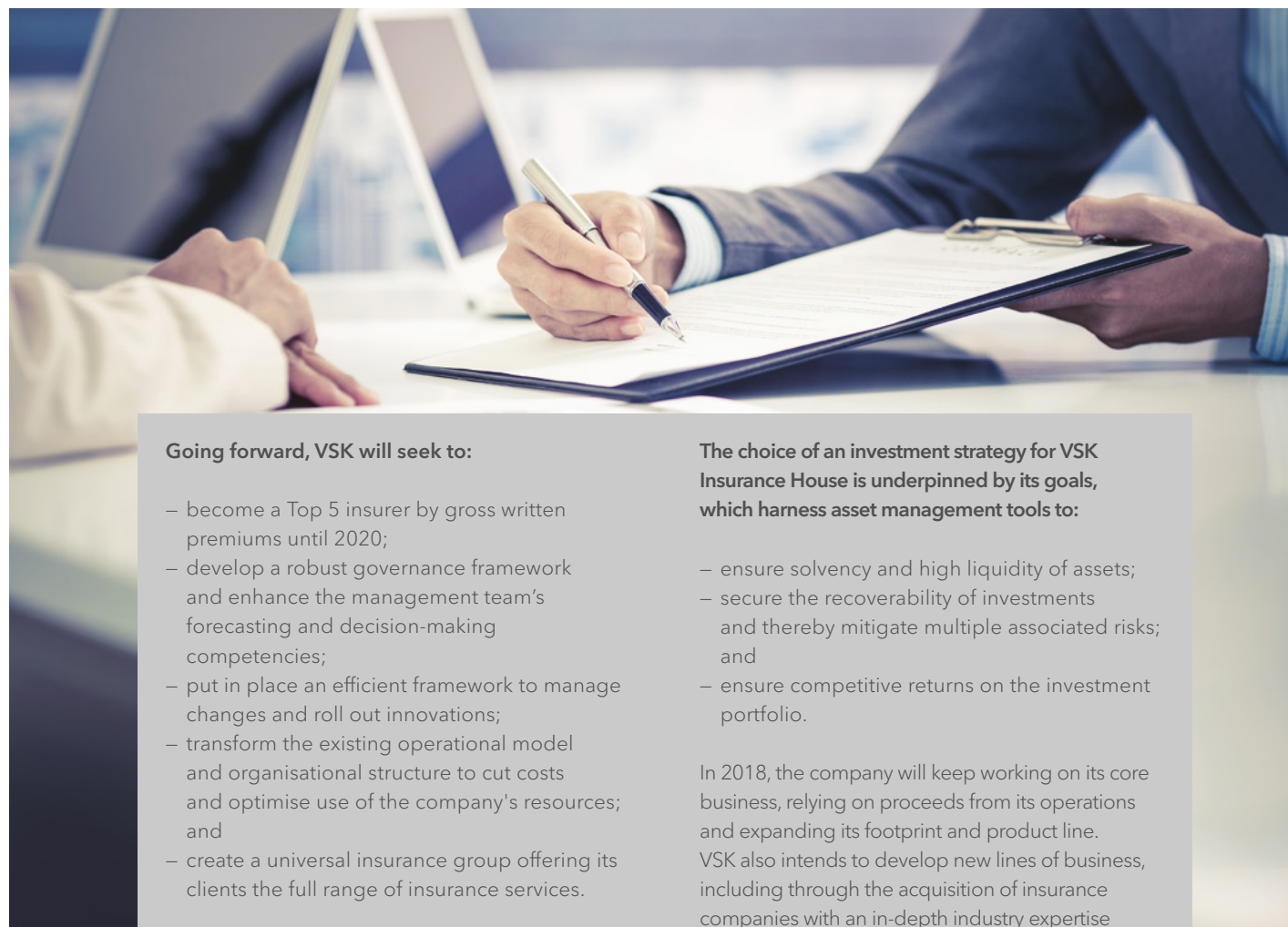


In 2017, the company also demonstrated positive premium growth in all key market segments. Despite the MHI market shrinking by 4.8%, VSK saw a 22.3% rise in premiums, climbing from the 5th to the 4th place in the ranking of major MHI insurers. In addition, VSK demonstrated impressive growth in non-motor insurance segments. Contributions in investment life insurance went up by 40.0%, with market share adding 1.2 pp to 5.9%. In VHI, contributions expanded by 22.4% and the market share increased from 3.1% to 3.8%. Cargo insurance was another strong performing segment as premium income rose by 44.2% despite the 6.6% slump in the market.

¹ Based on data by the Bank of Russia.

¹ Based on data by the Bank of Russia.

STRATEGY AND GROWTH PATHS



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.

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 2018, the company will keep working on its core business, relying on proceeds from its operations and expanding its footprint and product line. VSK also intends to develop new lines of business, including through the acquisition of insurance companies with an in-depth industry expertise focusing on specific distribution channels or market segments.

HR policy

In 2017, the company's headcount reached 5,979 people compared to 5,378 people in 2016. The HR efficiency management policy saw no major changes in the reporting period. The rise in headcount came against the backdrop of high employee performance standards, which resulted in FTE performance improving by 14% against 2016.

By enhancing its employee motivation and incentivisation framework, on-boarding newcomers, training and assessing their progress,

the company managed to keep the churn rate flat vs the previous year.

At the end of 2017, the company teamed up with Ecopsy, a Russian consultancy group, in a project to assess the universe of corporate values. The initiative spanned across the company's functions, and the outcomes will be used in the updated HR strategy, internal communications, HR branding, etc.

FINANCIAL PERFORMANCE

IFRS FINANCIAL HIGHLIGHTS¹

In 2017, VSK Group demonstrated solid growth and sustainably strong performance across key financial metrics:

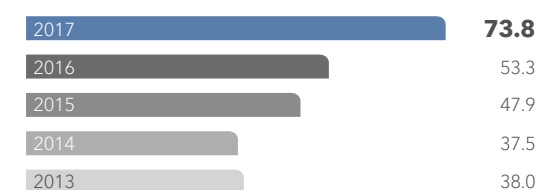
- Written insurance premiums totalled RUB 73.8bn (up 39% vs 2016);
- Insurance claims incurred stood at RUB 36bn (up 32% vs 2016);
- The portfolio's loss ratio (key quality metric for the insurance portfolio, reinsurance coverage, and tariffs) was 54.5%;
- Net profit totalled RUB 6.0bn, delivering a record growth of 59% y-o-y;
- ROE came in at 34.1%;

- Investment income less interest expenses on debt securities outstanding totalled RUB 3.7bn;
- Combined loss ratio stood at 93.1% in 2017.

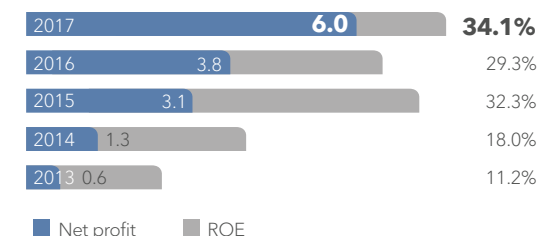
VSK Insurance House IFRS consolidated annual financial statements for the year ended 31 December 2017 are available at:

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

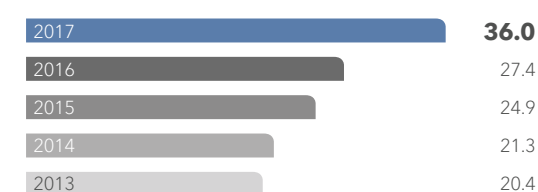
Gross written premiums, RUB bn



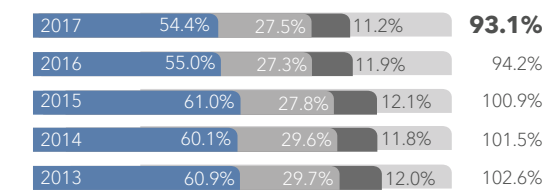
Net profit, RUB bn and ROE, %



Insurance claims incurred, RUB bn



Combined ratio, %



■ Loss ratio
■ Operating expense ratio
■ Acquisition expense ratio
■ Combined ratio

EQUITY

In 2017, VSK Group's equity exceeded RUB 20.3bn, or 21% of liabilities on the balance sheet.

The breakdown is as follows:

- Revalued authorised capital under IFRS: RUB 3.9bn (19% of equity);
- Retained earnings and other reserves: RUB 16.4bn (81%).

¹ VSK Group's consolidated financial statements for 2017 include the performance of its subsidiaries: Insurance Company Europlan, VSK-Liniya Zhizni, B&N Insurance, and VSK-Miloserdie.

INSURANCE RESERVES

The structure and volume of VSK Group's insurance reserves adequately match its insurance liabilities. The insurance reserves stand at RUB 65.2bn and make up 65.7% of the liabilities on the balance sheet.

The breakdown is as follows:

- Unearned premium reserve: RUB 37.3bn (57.2% of insurance reserves);
- Reserves for claims: RUB 17.6bn (27%);
- Reserves for life insurance: RUB 10.3bn (15.8%).

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.

Risks related to compulsory motor third-party liability insurance.

- CMTPL remains the most troubled segment of the insurance market. In 2017, the average price of CMTPL policy went down, demonstrating its first decline since 2004. The average payout under CMTPL claims in 2017 rose by 10% to RUB 75,800, with the average premium going down by 4% to RUB 5,800. Combined, these factors show that the situation in the segment is deteriorating as the entire system gets more and more out of balance;
- 2017 saw the launch of mandatory sales of E-CMTPL and prioritisation of CMTPL payouts in kind – that became a major additional burden for insurers;
- The key issue faced by insurance companies today is the activity of fraudulent legal intermediaries that results in unjustified payouts of grossly overstated amounts to the benefit of the intermediaries and not the actual customers. The outcome is the rising loss ratio and sparse availability of CMTPL in a number of Russian regions.

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 reinsure 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 2017, 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 2017, 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 2017, the reinsurers' share in the Outstanding Claims Reserve stood at RUB 1bn. In 2017, reinsurance payouts exceeded RUB 700m.

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

BB- from Fitch

In October 2017, Fitch Ratings confirmed VSK's Insurer Financial Strength (IFS) rating, the Issuer Default Rating (IDR) and bond rating at BB-, outlook stable.

Agency analysts noted VSK's strong operating profitability supported by the high quality of its investment portfolio as the key drivers behind the company's solid rating.

ruAA from Expert RA

In April 2018, the RAEX (Expert RA) rating agency confirmed VSK's credit rating at ruAA, outlook stable.

VSK demonstrates robust management, including risk management. A positive impact on the rating comes from the company's strong transparency of communications, RAEX said. 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 company has diversified assets with a small share of affiliated counterparties.

As another driver, RAEX noted solid above-normal solvency margins, robust returns on assets and return on equity, and impressive returns on investments. Net loss and aggregated net loss ratios are low.

Financial results

The core business of SAFMAR Financial investments is effective investments and management of assets in the financial industry. Below are the key operating highlights for 2017.

In 2017, SAFMAR Financial investments demonstrated a robust growth of its key financial indicators, which is a testament to the strategy that the Company pursues. In the challenging macroeconomic environment, we were able to pay RUB 1.45bn in interim dividends, helping to build a strong dividend history for our shareholders.

For more details on the business overview and operating highlights of specific businesses within the holding company, please see **Our assets** on pages **30-63**

OVERVIEW

- Total income from operations and finance income for 2017 grew by 96% y-o-y to RUB 14.1bn. Almost half (46%) of the income came from leasing operations (RUB 6.5bn);
- The holding company's consolidated net profit increased more than 2.5 times, reaching RUB 8.3bn¹. Income from insurance activities is the largest contributor, delivering 41%, or RUB 3.4bn;
- The holding company's equity was up from RUB 78.3bn as at 31 December 2016 to RUB 84.6bn as at 31 December 2017;
- ROAE for 2017 was 10%;
- Borrowings and loans totalled RUB 21.8bn, or within 10% of the holding company's total liabilities.

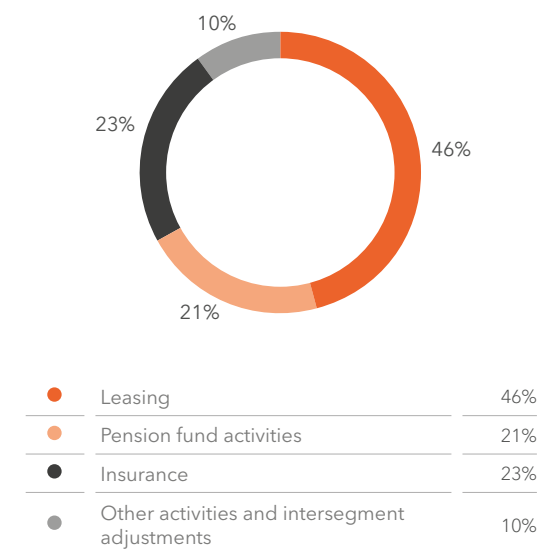
IFRS consolidated financial results

RUB m	2017	2016
Total income from operations and finance income, including:	14,076	7,204
from leasing activities	6,518	5,597
from pension fund activities	2,970	757
from insurance activities	3,173	691
from other activities and inter-segment adjustments	1,415	158
Profit before income tax from continuing operations	9,755	4,104
Net profit / (loss)	8,264	3,310
including:		
from leasing activities	2,144	2,364
from pension fund activities	1,811	487
from insurance activities	3,361	488
from other activities and inter-segment adjustments	948	(29)
Earnings per share²	74.88	29.65

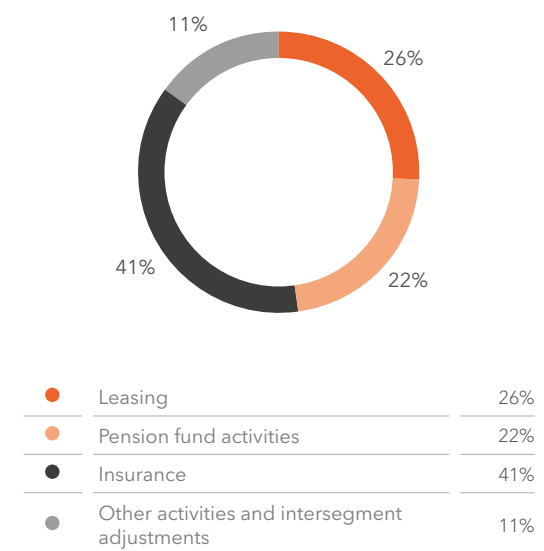
¹ The significant increase in net profit of the holding company compared to the previous year was due to the inclusion of results from pension and insurance businesses in FY2016 consolidated statements only for December 2016.

² RUB per share.

Income from operational and financial activities in 2017 by segment, %



Net profit in 2017 by segment, %



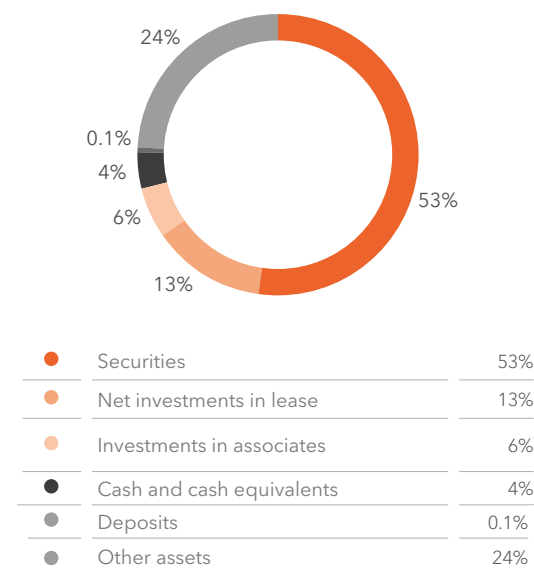
IFRS consolidated statement of financial position

RUB m	31.12.2017	31.12.2016
ASSETS	316,917	293,903
Cash and cash equivalents	14,100	54,801
Financial instruments at fair value through profit or loss	165,875	150,110
Bank deposits	292	14,351
Net investment in leases after impairment allowance	40,551	27,471
Loans issued	44,250	155
Investments in associates	18,904	16,270
Goodwill	24,201	24,201
Other assets	8,744	6,544
LIABILITIES	232,349	215,556
Obligations under compulsory pension insurance agreements	187,892	181,893
Obligations under non-government pension agreements	8,148	7,882
Borrowings	21,791	10,205
Bonds issued	9,658	11,208
Other liabilities	4,860	4,368
EQUITY	84,568	78,347

ASSETS

As at 31 December 2017, the holding company's assets stood at RUB 316.9bn compared to RUB 293.9bn a year earlier. The holding company keeps around 70% of its assets in liquid assets (including bank deposits, cash, and securities, which account for 57%) and high-margin leasing portfolio (net investment in the lease, which accounts for 13%).

Assets structure as at 31 December 2017, %

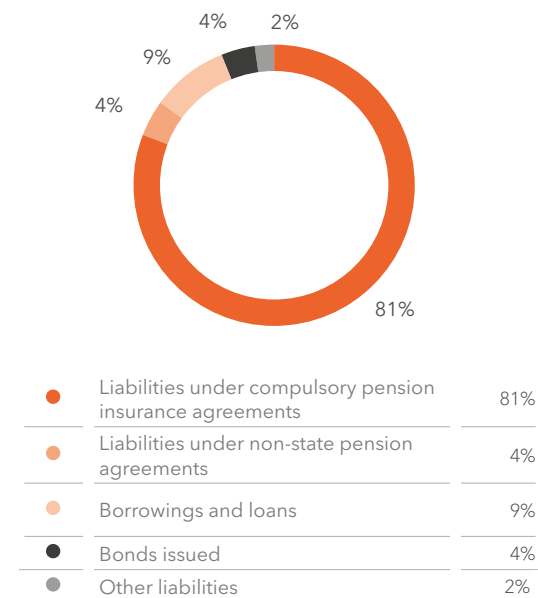


LIABILITIES

As at 31 December 2017, liabilities totalled RUB 232.3bn (compared to RUB 215.6bn as at 31 December 2016). Importantly, the liabilities under compulsory pension insurance (CPI) contracts and non-state pension plans (NSPP), which account for 85% 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.

The holding company's borrowings and loans account for no more than 10% of its total liabilities. Leasing activities account for 100% of the liabilities, including bonds outstanding.

Liabilities structure as at 31 December 2017, %



RAS PERFORMANCE

According to the annual non-consolidated accounts under the Russian Accounting Standards (RAS), the holding company's net profit almost doubled against 2016, reaching RUB 3.4bn.

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 net cash flow for the year if a considerable part of the profit comes from revaluation of assets).

The Company's RAS accounting (financial) statements for 2017 are available at:
www.safmarinvest.ru

Risk Management

In line with the plans to develop the Company as a financial holding, 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

In mid-2017, the financial holding company was restructured. As a result, the Company started developing a new integrated approach to risk management, which would include: risk identification, analysis, assessment and prioritisation, risk management planning and coordination, risk appetite definition, monitoring and controls across all kinds of risks and business units. In 2018, the Company intends to roll out an enterprise risk management system, including related restructuring initiatives. Currently, risk reporting covers all kinds of risks to ensure that information escalated to the management is complete, fair and comparable for each of the decision-making levels, which 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.

ECONOMIC RISK

Description of risk and its potential impact

There are a few macroeconomic forecasts for the national economy and associated economic risks. According to Rosstat, Russia's economy grew by 1.5% in 2017, which is below the consensus forecast of analysts and economists polled by Reuters, and the official forecast of the Ministry of Economic Development (2.1%).

In 2018, the Ministry expects a higher economic growth rate of about 2%, whereas the country's budget will have a surplus of 1% at the year-end. When Goldman Sachs was updating its growth forecast for various economies, it issued a more optimistic forecast for Russia: 3.3% in 2018 and 2.9% in 2019. This is considerably above the Ministry's official forecast. However, this strong acceleration cannot propel the Russian economy to global average growth rates. In 2018-2019, Goldman Sachs expects the global GDP to grow by around 4% vs 3.7% in the past year. According to analysts, acceleration of the global economy comes on the back of easier access to funding and accommodative fiscal policies of regulators. Going forward, however, these factors may bring about an overheating of developed economies and trigger a recession. The Russian economy is no longer declining, but its growth in the years to come is likely to be limited to 1.5%, according to head of the IMF Resident Representative Office in Russia. The IMF projects that the country's economy should be growing by 3% annually if Russia wants to keep its role in the global economy.

It should however be noted that the continued capital outflow narrows down opportunities for growth of investments in the economy. The situation will improve provided that there is geopolitical certainty.

Growth of investments in fixed assets, which is crucial for the holding company's leasing business, will be driven by the potential of ramping up private investments amid a reduction in the government's investment spending. Investments in fixed assets of the transport industry will be the key contributor.

Possible adverse changes in Russia's economic development and associated FX rate fluctuations, together with inflationary risks may have a considerable impact on the Company's business. If the macroeconomic environment in the country has an adverse effect on the Company's operations, the Company intends to take all necessary actions to mitigate the implications for its business.


Actions to mitigate the risk

If any or some of the above risk factors of economic nature materialise, the Company is determined to take all steps possible to offset their negative impact. To identify specific measures to be taken if and when any of the above events occurs, the Company is engaged in the ongoing monitoring of the situation in Moscow and in Russia. Actions will be addressing specific circumstances on a case-by-case basis. The Company cannot guarantee that its actions to counter adverse consequences will prove successful, since most of the above risk factors are beyond its control.

As the holding company carries out its core business solely in Russia, it intends to implement an overarching anti-crisis plan, including measures to mitigate FX and interest rate risks by entering into interest rate swaps and FX options and forwards, along with adopting a policy set to reduce credit risk and maintain interest margin, and a prudent operating costs management policy.

In general, we assess the economic environment in Moscow and in Russia overall as fairly stable. Factors that are likely to affect the political environment in the future include greater concentration of power and weaker role of democratic institutions, along with a slower reformist policy and higher corruption and red tape rates. These factors may potentially put a cap on the holding company's general ability to raise investments.

INDUSTRY RISKS

For more details on industry risks related to the holding company's assets, please see pages  **40, 52-53** and **60-62**.

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 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.

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.

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

>60 dedicated charitable programmes

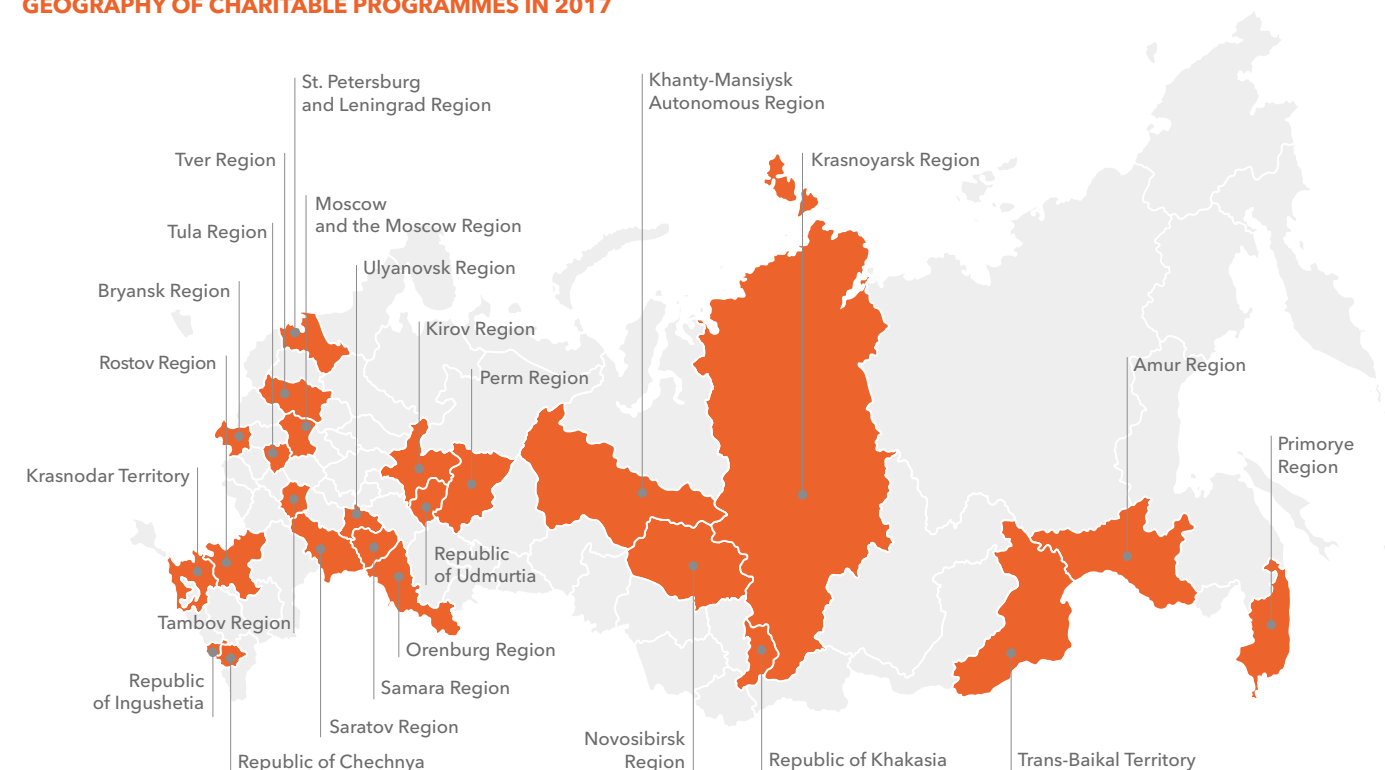
26 Russian regions covered

>RUB 1.9bn 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 2017



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 2017

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) and Winter International Arts Festival in Sochi (organised by the eminent conductor Yuri Bashmet). 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. The foundation 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.



SPORTS

In this domain, SAFMAR CF provides aid to 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.

HEALTHCARE

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. For example, the foundation provided aid to completing a rehabilitation facility for disabled children in Udmurtia

and is focused on developing medical diagnostic centres in the Orenburg Region. 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 those many to have already performed at Outside Readings are Darya Moroz, Yelizavjeta Boyarskaya, Svetlana Kamynina, Mikhail Yefremov

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 2017, it showcased works of famous Russian avant-gardists, such as Wassily Kandinsky, Alexander Rodchenko, Kazimir Malevich, Marc Chagall and El Lissitzky, etc. 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 and Gubkin Russian State University of Oil and Gas. The foundation has been running 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. SAFMAR CF is also helping create a unique interactive museum in the Park of Arts and Sciences at the Sirius children's centre in Sochi. Its exhibits will showcase the laws of physics, mathematics, chemistry and biology while also introducing children and adults to the basics of mechanics, optics and acoustics. The foundation has been a contributor 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 2017, its donations helped build an orthodox chapel honouring the holy Prophet Elias in the village of Bygi, Udmurtia, Archangel Michael's Church in Orsk, Orenburg Region, and St Sergius of Radonezh's Church in Rostov-on-Don, as well as restore the Church of the Epiphany in Prislonikha, Ulyanovsk Region. Another donee was the Transfiguration Cathedral in Tambov. 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 humanity. 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 provides aid to 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, 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 overachieve.



AID TO PEOPLE IN NEED

Providing aid to disadvantaged social groups is a priority for the foundation. Severely disabled children have pharmaceuticals and rehabilitation equipment they need, including so-called artificial kidneys. SAFMAR CF keeps supporting disabled children diagnosed with cystic fibrosis and other diseases. Its donations have been used to publish special textbooks and other educational literature for visually impaired children across Russia. The foundation has launched a number of projects with a focus on the social adaptation and career counselling of young people in orphanages. It is a sponsor of Our Home – a centre for family mentoring assistance housing orphans, including disabled children.



Thanks to Find Me Mama, a three-year-long joint charitable initiative, almost 25% of orphans have found new parents. Support Fund for the Cinema, Radio, Television, Multimedia, and Animation of Nikolay Rastorguyev, Russia Today, and Radio Book are partners of the foundation.

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 nurture patriotic feelings and love for their country among young people.



Professionalism and expertise in corporate governance is one of the pillars of our success and rapid growth that helps secure our leadership in the long term.

The current Board of Directors of SAFMAR Financial investments is a strong team of dedicated professionals who contribute their skills and competencies to strategic governance and progress towards the Company's goals and objectives.

Corporate Governance

- 82** Corporate Governance framework
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- 103** Remuneration and Nomination Committee
- 103** Strategy and Risk Management Committee
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structure and powers
- 105** External audit

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 report¹.

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 effective from 1 January 2017 to 09 August 2017:

- General Meeting of Shareholders;
- Board of Directors; and
- Asset Management Company (following the delegation of authority of the sole executive body pursuant to the resolution of the General Meeting of Shareholders).

Effective from 10 August 2017, the governance bodies of the Company are:

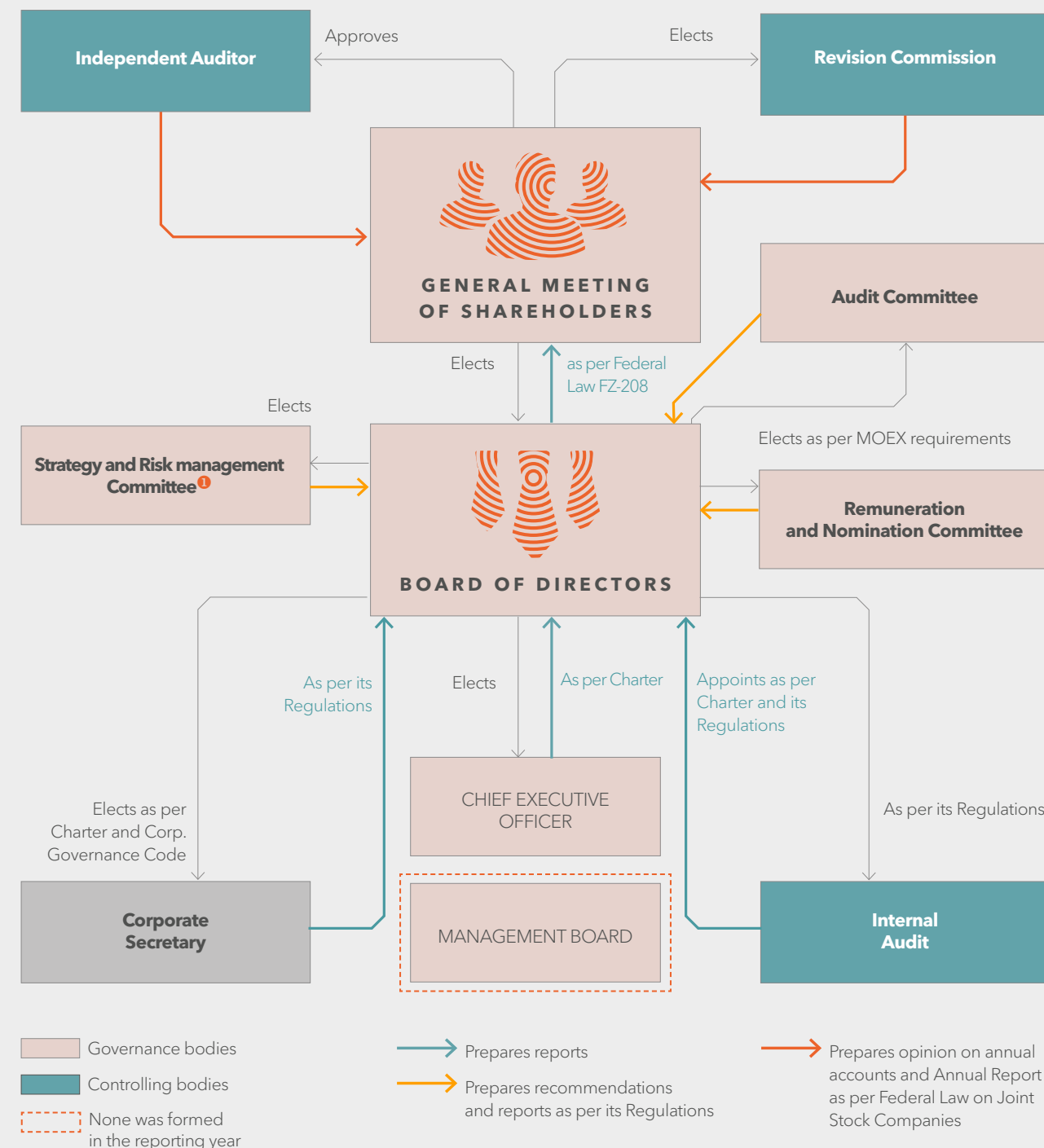
- General Meeting of Shareholders;
- Board of Directors;
- Management Board;²
- Chief Executive Officer - CEO (sole executive body).

For CEO's biography, see pages 94-95

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

Company's Charter and Q4 2017 quarterly report are available on the disclosure web sites at:
www.e-disclosure.ru www.safmarinvest.ru

CORPORATE GOVERNANCE STRUCTURE OF PJSC SAFMAR FINANCIAL INVESTMENTS AS AT 31 DECEMBER 2017



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.

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.

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.e-disclosure.ru



www.safmarinvest.ru

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 2017

Type	Date	Agenda	Approved decisions (links to disclosed materials)
Extraordinary	20 February 2017	1. Reorganisation of Public Joint Stock Company Europlan by spinning off Joint Stock Company Europlan Leasing Company.	 http://www.e-disclosure.ru/portal/event.aspx?EventId=sHZSntKFLkyWFH0EmiS53w-B-B
Extraordinary	25 April 2017	1. Approval of the new version of the Charter of Public Joint Stock Company Europlan (19 th version).	 http://www.e-disclosure.ru/portal/event.aspx?EventId=m4BdvEMCkECtokTLft9Kew-B-B
Annual	26 June 2017	1. Approval of Europlan's 2016 Annual Report and Europlan's 2016 annual accounts (financial statements). 2. Distribution of profits, including dividend payout (declaration), and losses for 2016. 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 2017 accounts (financial statements) under the Russian Accounting Standards (RAS).	 http://www.e-disclosure.ru/portal/event.aspx?EventId=h4nyUPKibkuDyVLKta8rgA-B-B
Extraordinary	9 August 2017	1. Approval of the new version of the Charter of Public Joint Stock Company SAFMAR Financial investments (20 th version) following the renaming of the Company. 2. Early termination of powers of the Board of Directors of the Company. 3. Election of members of the Board of Directors. 4. Early termination of powers of the management company. 5. Approval of the new version of the Regulation on the Procedure for Convocation and Holding of General Meetings of Shareholders (version 2). 6. Approval of the new version of the Regulation on the Board of Directors (version 3). 7. Approval of the new version of the Regulation on the Revision Commission (version 2). 8. Approval of the new version of the Regulation on the Remuneration and Compensation for Members of the Board of Directors (version 2).	 http://www.e-disclosure.ru/portal/event.aspx?EventId=eGD1Xb7QFkuqUA7b-AjmN9g-B-B
Extraordinary	29 November 2017	1. Approval of the new version of the Charter of Public Joint Stock Company SAFMAR Financial investments (21 st version). 2. Early termination of powers of the Board of Directors of the Company. 3. Election of members of the Board of Directors.	 http://www.e-disclosure.ru/portal/event.aspx?EventId=xi8PbJl8YECzl2KSCSO7Qw-B-B
Extraordinary	15 December 2017	1. Payment (declaration) of dividends for 9M 2017.	 http://www.e-disclosure.ru/portal/event.aspx?EventId=KDqHmPV0lk6p08HrCN5gQA-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 2017 quarterly report, which are available 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 Extraordinary General Meeting of Shareholders dated 29 November 2017 and includes 15 members:

	From 1 January 2017 to 26 June 2017 ¹	From 26 June 2017 to 9 August 2017 ²	From 9 August 2017 to 29 November 2017	From 29 November 2017 - present time
Oleg Andriyankin				
Nikita Bykov				
Oleg Vyugin - Chairman of the Board of Directors				
Andrey Gorokhov				
Alla Gryaznova				
Andrey Gorokhov				
Mikhail Gutseriev				
Said Gutseriev				
Sait-Salam Gutseriev				
Alexander Lukin				
Anton Zhuchenko				
Maxim Kosolapov				
Avet Mirakyan				
Ilya Mikhaylenko				
Alexander Myakenky				
Sergey Nazarov				
Olga Prozorovskaya				
Bilan Uzhakhov				
Sergey Tsikalyuk				
Mikhail Shishkhanov				

Board of Directors membership periods

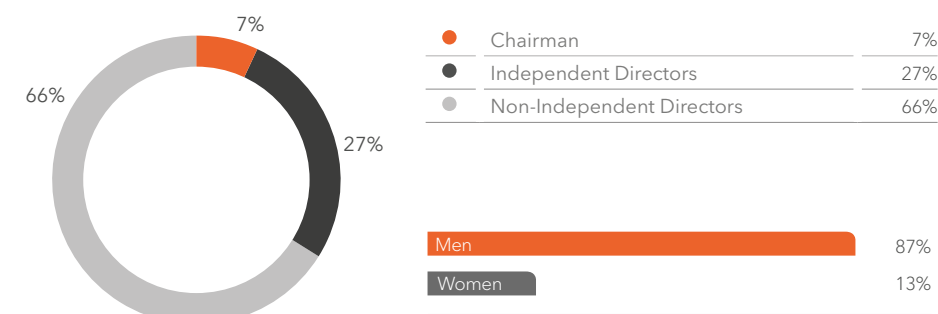
¹ From 1 January 2017 (elected by the resolution of the General Meeting dated 6 June 2016) to the Annual General Meeting of 26 June 2017.

² From 26 June 2017 to 9 August 2017 (before the amendments to the Company's Charter, including those regarding renaming to PJSC SAFMAR Financial investments and increasing the number of members of the Board of Directors from 9 to 15).

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

BOARD COMPOSITION AS OF 31 DECEMBER 2017



Oleg Vyugin

Chairman of the Board of Directors



Date of birth: 1952

Oleg was appointed to the Board of Directors of PJSC SAFMAR Financial investments in 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 member of the Board of Directors, independent director, Chairman of the Strategic Planning Committee 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 (Deputy Chairman of Supervisory Board), PJSC Moscow Exchange (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). Member of Economic Council under President of the Russian Federation, member of Expert Council under the Government of the Russian Federation, member of the Advisory Council under Chairman of the Bank of Russia, member of the Community Council of the Ministry of Finance of the Russian Federation.

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



Audit Committee



Nomination and Compensation Committee



Strategy and Risk management Committee¹



Committee's Chairman

Key to committee membership



Audit Committee



Nomination and Compensation Committee



Strategy and Risk management Committee



Committee's Chairman

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.

Andrey Gorokhov

Non-executive Director



Date of birth: 1980

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

EDUCATION AND QUALIFICATIONS

In 2002 Andrey graduated from Ivanovo State chemical-engineering university with a degree in Economics and Company Management. Ph.D. in Economics.

CAREER

From July 2007 till October 2015 – Head of Department for financial and investment analysis with the PromSvyazCapital Limited Liability Company.
From October 2015 till February 2017 – Head of Division for financial and investment analysis with the PromSvyazCapital Public Joint-Stock Company.
From February 2017 till present – Deputy Director General for management accounting, reporting and new projects with the Corporate Investments and Technologies Limited Liability Company.

Andrey also makes part to the Boards of Directors of JSC Russki Ugol (Russian Coal) and PJSC Mospromstroy.

Does not hold Company shares.

Key to committee membership



Audit Committee



Nomination and Compensation Committee



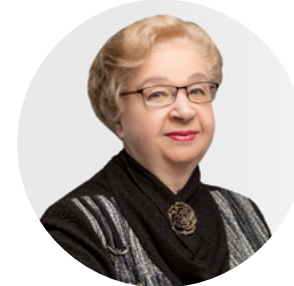
Strategy and Risk management Committee



Committee's Chairman

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 majoring 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.

Mikhail Gutseriev

Non-executive Director



Date of birth: 1958

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



EDUCATION AND QUALIFICATIONS

Graduated from the Dzhambul Technological Institute of Light and Food Industry in Dzhambul (Kazakh SSR) majoring in "Chemical process engineering", Gubkin State University of Oil and Gas majoring 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.

Key to committee membership

 Audit Committee

 Nomination and Compensation Committee

 Strategy and Risk management Committee

 Committee's Chairman

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;
- 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.

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

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.

Key to committee membership

 Audit Committee

 Nomination and Compensation Committee

 Strategy and Risk management Committee

 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 June 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 FortelInvest. He is also a Chairman of the Board of Directors of AO Preobrazhenskneft, AO Oilgaztet, OOO Geoprogress 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.

Anton Zhuchenko

Non-executive Director



Date of birth: 1975

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

EDUCATION AND QUALIFICATIONS

Anton Zhuchenko graduated from the Lomonosov Moscow State University in 1997 (Law Faculty), 1999 – PhD in Law.

CAREER

In 1998–2007, worked at Slavneft and RussNeft Companies.

Since 2007, Head of UK Company GCM Global Energy PLC and a Member of the Board of Directors of Companies operating in oil and gas, oil refining, coal and potassium fields, as well as real estate.

Does not hold Company shares.

Key to committee membership



Maxim Kosolapov
Independent Director



Date of birth: 1981

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



EDUCATION AND QUALIFICATIONS

In 2001, Maxim Kosolapov graduated from the Paris Graduate School of Management and International Business (ESGCI) with Master's Degree in Business Management. In 2004, he graduated from the Association of Chartered Certified Accountants in London with qualification of Fellow of the Chartered Association of Certified Accountants (FCCA).

CAREER

2004-2007, worked as Deputy Chief Accountant at Goumal & Co Accountants, an accounting and taxation services company (London, UK).
2007-2010, Chief auditor at an audit company SH Landes LLP (London, UK).
2010-present, holds the position of Chief Financial Officer at an investment company Treadstone Partners Ltd (London, UK).

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.



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.

Key to committee membership



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 6,848 of Company's ordinary registered shares (0.0061% 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.

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) majoring 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.

Key to committee membership



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, Vserossiyskiy 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 June 2016.



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.

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.

Olga Prozorovskaya
Non-executive Director



Date of birth: 1965

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

EDUCATION AND QUALIFICATIONS

In 1987, graduated from Ordzhonikidze Moscow University of Management majoring in "Engineer-Economist of Business Administration".

CAREER

1987-1995 - economist, junior researcher at the Central Scientific and Research Institute for Economics and Construction Management.
1995-1997 - Senior State Tax Inspector, Chief State Tax Inspector at the State Tax Inspection of the Republic of Ingushetia.
1997-1999 - tax expert, auditor, Head of Inspection and Review Department of Financial and Industrial Union B&N.
1999-2001 - Deputy CEO for Economy and Finance of OJSC All-Russian Institute of Lightweight Alloys.
2001-2002 - Deputy Head of Monetary and Finance Department of Oil and Gas Company Slavneft.
2002 - Chief Accountant of Oil Company RussNeft, 2004 - Senior Vice-President for Economy and Finance of the company.
2007-2009 - CEO of Oil Company Safmar.
January 2010 - Senior Vice-President for Economy and Finance of Oil Company RussNeft.

Does not hold Company shares.

Bilan Uzhakhov
Non-executive Director



Date of birth: 1987

Bilan was appointed to the Board of Directors of PJSC SAFMAR Financial investments in June 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



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.

In May 2017, he joined PJSC M.Video as Vice-President.

Does not hold Company shares.

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 from the date he was elected at the first meeting of the Board of Directors after the Annual General Meeting of Shareholders and after the confirmation of his Chairman authority at the initial meetings of the Board of Directors that were convened after the Extraordinary General Meetings of Shareholders of 9 August 2017 and 29 November 2017 and that elected the Board of Directors.

The Board of Directors and the Board Committees are fully compliant with 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. All members of the Audit Committee and the Remuneration and Nomination Committee are independent directors.

In 2017, the Board of Directors held **33 meetings**, including **8 meetings held in person**, and more than **15 meetings of the 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 amended with the Company's new name. 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 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 major 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 important matters considered by the Board of Directors.

MEMBERS' ATTENDANCE OF THE BOARD OF DIRECTORS AND BOARD COMMITTEE MEETINGS

In 2017, all members of the Board of Directors actively participated in meetings and discussions. Over the reporting period, quorum was present for each item of meeting agendas, including approvals of major transactions, which won unanimous support of all the elected members of the Board of Directors.

26.06.2017-09.08.2017

Members of the Board of Directors in the reporting year	Independent director	Board of Directors meetings attended	Audit Committee	Remuneration and Nomination Committee
Oleg Vyugin - Chairman of the Board of Directors	-	5/5	-	-
Alla Gryaznova	+	5/5	2/2	1/1
Mikhail Gutseriev	-	5/5	-	-
Alexander Lukin	-	5/5	-	-
Avet Mirakyan	-	5/5	-	-
Alexander Myakenky	+	5/5	2/2	1/1
Sergey Nazarov	+	5/5	2/2	1/1
Bilan Uzhakhov	-	5/5	-	-
Mikhail Shishkhanov	-	5/5	-	-

09.08.2017-29.11.2017

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

29.11.2017-23.03.2018

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	–	5/5	–	–
Oleg Vyugin - Chairman of the Board of Directors	–	5/5	–	–
Andrey Gorokhov	–	5/5	–	–
Alla Gryaznova	+	5/5	1/1	1/1
Mikhail Gutseriev	–	4/5	–	–
Said Gutseriev	–	4/5	–	–
Anton Zhuchenko	–	5/5	–	–
Maxim Kosolapov	+	5/5	1/1	–
Ilya Mikhaylenko	–	5/5	–	–
Avet Mirakyan	–	5/5	–	–
Alexander Myakenky	+	5/5	1/1	1/1
Sergey Nazarov	+	5/5	1/1	1/1
Olga Prozorovskaya	–	4/5	–	–
Bilan Uzhakhov	–	5/5	–	–
Sergey Tsikalyuk	–	4/5	–	–

REMUNERATION AND COMPENSATION
FOR MEMBERS OF THE GOVERNANCE BODIES

BOARD OF DIRECTORS

In 2017, the members of the Company's Board of Directors were entitled to remuneration and compensation determined in accordance with the Remuneration and Compensation Policy for the Board of Directors approved by the 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 2.5m (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 0.5m (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 committee may select to waive the remuneration payable for the membership in the Board of Directors and the Board committee 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 pre-reviews 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 their powers are terminated early.

In 2017, the **total (aggregate) remuneration paid to the Board of Directors stood** at RUB 11,087,322 (RUB 9,307,566 in 2016).

MANAGEMENT BOARD

No remuneration was paid to the Management Board as there was none formed in 2017.

MANAGEMENT COMPANY

The remuneration of the management company stood at RUB 737,500. In 2017, the Company paid no compensation for the expenses related to the membership in the governance bodies.

ADDITIONAL INFORMATION

From 1 January 2017 to 29 June 2017 (the date of spinning off leasing operations into the standalone subsidiary Europlan LC), the Company ran Europlan Perspective, an incentive programme for the top management aimed at boosting their motivation to help the Company achieve its long-term strategic goals (set for over one year) along with qualitative and quantitative targets, delivering sustainable operating results, enhancing loyalty and retaining the Company's senior management.

The programme covered senior managers in the positions of the head of the division, head of the representative office and above, excluding the Internal Audit function, corporate secretary and members of the Company's Management Board.

As the Management Board was not established, the Company set no amounts of severance payments, compensations and other payments (golden parachutes) payable to the members of the Management Board in the event of early termination of their powers (termination of employment contracts) at the initiative of the Company and in the absence of any guilty (unscrupulous) acts (or omissions) on their part.

No non-cash remunerations, including remuneration in shares (or based on shares), employee stock options (option agreements), social or fringe benefits (provision of housing or compensations of housing expenses, insurance costs, pension contributions in excess of statutory ones, goods or services granted free of charge or at a reduced price, etc.) were paid to the sole executive body elected in 10 August 2017.

There is no information about remuneration paid the sole executive body for serving on governance bodies or in top management positions at the Group companies. Information about such remunerations may be sourced from quarterly reports of companies that are obliged to make public disclosures.

Information about companies where Avet Mirakyan, CEO of SAFMAR Financial investments, holds positions in the governance bodies, is available in quarterly reports at www.e-disclosure.ru

BOARD COMMITTEES

Following the Annual General Meeting of Shareholders for 2016 that took place on 26 June 2017, the Company had active Committees composed of independent directors. The composition of the Committees was re-approved after the extraordinary meetings of 9 August 2017 and 29 November 2017.

AUDIT COMMITTEE



Composition of the Committee as at 31 December 2017

- Sergey Nazarov – Chairman of the Committee;
- Alla Gryaznova;
- Alexander Myakenky;
- Maxim Kosolapov.

For the biographies of the members of the Audit Committee, please see pages **89-98**

For the information on the Audit Committee meeting attendance, please see pages **99-100**

The Audit Committee was established by the resolution of the Board of Directors of SAFMAR Financial investments dated 28 June 2017. 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. On 9 August 2017, the Board of Directors resolved for Maxim Kosolapov, also an independent director, to join the Committee.

Since its inception, the Audit Committee has been 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.

Since the Annual General Meeting of Shareholders of 26 June 2017, the Committee met **six times in presentia**. 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 quarterly and for 2017 cumulatively;
- 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:

- 2018 action plan of the Internal Audit function;
- Internal Audit performance in 2017;
- Auditor's nomination; and
- opinion on the Auditor's report based on annual accounts of the Company.

REMUNERATION AND NOMINATION COMMITTEE



Composition of the Committee at 31 December 2017:

- 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 **89-98**

For the information on the Remuneration and Nomination Committee meeting attendance, please see pages **99-100**

The Remuneration and Nomination Committee was re-elected by the Board of Directors of SAFMAR Financial investments on 28 June 2017. 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.

Since its inception, the Committee **met four times in presentia**.

The Committee deliberated on matters which come within its authority, including:

- nominations to the Board of Directors and the Revision Commission of the Company in accordance with the requirements of the Moscow Exchange and the provisions of the Code of Corporate Governance;
- recommendations to improve and streamline the organisational structure of the Company;
- regulation on motivation of SAFMAR Financial investments employees;
- report on staff turnover; and
- matters preliminarily considered and approved: material terms and conditions of contracts with the Chief Executive Officer, including recommendations on the salary paid to the Chief Executive Officer.

Following deliberations, the Committee issued recommendations, including:

- 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, support to intra-group HR coordination; and
- material terms and conditions of the contract with the Chief Executive Officer.

STRATEGY AND RISK MANAGEMENT COMMITTEE



The Company has the Strategy and Risk Management Committee that consists of seven members. The Committee was active from 9 August 2017 to 29 November 2017. It was then re-established based on the resolution of the Board of Directors dated 15 February 2018. The Committee did not meet during the reporting period.

Composition of the Committee as at 15 February 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 **89-98**

Before the Annual General Meeting for 2016, the Company had the following active Committees:

1. Strategy Committee comprised of:

- Mikail Shishkhanov (Chairman of the Committee), Nikita Bykov, Mikhail Gonopolsky, Alexander Lukin, Avet Mirakyan, and Alexander Mikhaylov.

In 1H 2017, the Committee held one in-absentia meeting.

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).

2. Risk Management Committee comprised of:

- Georgy Arakelyan (Chairman of the Committee, stepped down on 15 June 2017), Artem Arkhangelsky, Mikhail Gonopolsky, Sergey Nazarov, and Sergey Pukhov.

On 18 May 2018, the Committee held its only in-person meeting, which was attended by all members except for Mikhail Gonopolsky.

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 IN 2017

	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%

MEMBERS OF INTERNAL AUDIT IN 2017

	Full name	Date of birth	Primary employment	Interest in the authorised capital and percentage of ordinary shares	Working period
1	Lyudmila Kostikova	1971	Head of Internal Audit	0%	Until 21.04.2017
2	Ekaterina Polukhina	1984	Deputy Head of Internal Audit	0%	Until 30.06.2017
3	Anastasia Kozhemyakina	1976	Head of Internal Audit	0%	18.09.2017 – 07.03.2018

REMUNERATION AND COMPENSATION FOR MEMBERS OF CONTROL BODIES

REVISION COMMISSION

In 2017, 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 2017, the remuneration amount (salary) of the Internal Audit personnel stood at RUB 3.2m. In 2017, 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 recognised 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 August 2017, the Board of Directors set the fees payable to Ernst & Young LLC for the 2017 reporting period at RUB 9,628,800, including VAT.



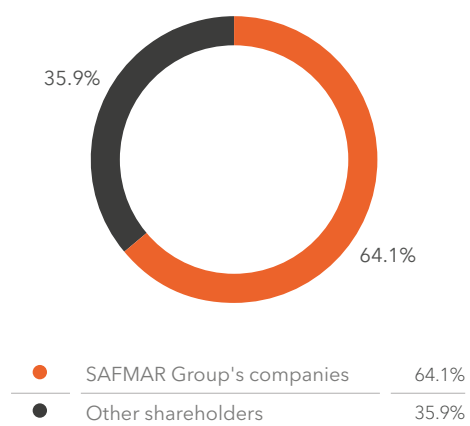
Information for Shareholders and Investors

SHARE CAPITAL STRUCTURE

As at 31 December 2017, the Company's authorised capital 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.

SHARE CAPITAL STRUCTURE OF SAFMAR FINANCIAL INVESTMENTS¹

The number of shareholders registered in the share register is 541.



In December 2016, the Company issued 88,660,791 ordinary registered shares with a par value of RUB 0.67 each, thus increasing its share capital by RUB 59,402,000. The total amount of cash and the value of other assets contributed as payment for the issued shares was RUB 66,446,216,000. The number of issued shares paid for in cash amounted to 20,833,333 shares, while the cash contributed as payment for the issued shares reached RUB 14,999,995,000. In consideration for some of the additionally issued shares, the Company

received 149,763 ordinary registered shares in NPF SAFMAR and 17,885,000 ordinary registered shares in VSK Insurance House for a total of RUB 49,446,221,000. The number of issued shares paid for by shares in NPF SAFMAR and VSK Insurance House amounted to 67,827,458 shares assessed at fair value at RUB 49,446,221,000. In February 2017, the amendments to the Company's Charter were recorded in the Unified State Register of Legal Entities to reflect the increase in its authorised capital and the number of issued shares.

Up to 23 March 2017, SAFMAR Financial investments had the following share issues outstanding:

1. The state registration number and the date of state registration: 1-02-56453-P dated 1 October 2015 in the amount of 22,977,000 shares.
2. The state registration number and the date of state registration: 1-02-56453-P-002D dated 15 November 2016 in the amount of 88,660,791 shares.

On 23 March 2017, after state registration of the post-issue report, the Bank of Russia decided to cancel the 002D individual code of state registration No. 1-02-56453-P-002D assigned to the additional issue of ordinary registered shares in SAFMAR Financial investments. **As at 31 December 2017**, there were 111,637,791 ordinary shares of the Company outstanding under state registration No. 1-02-56453-P.

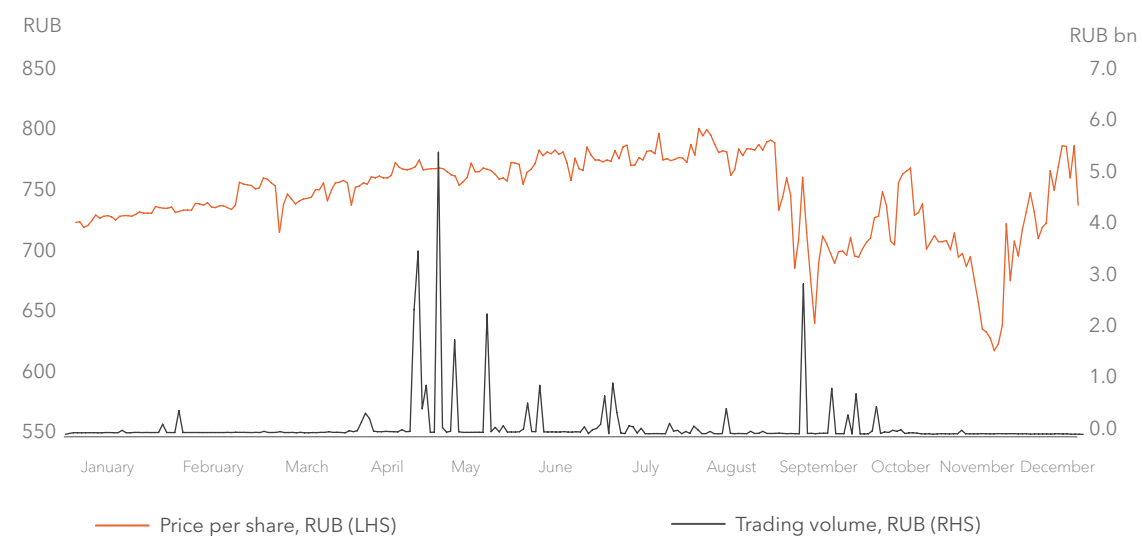
STOCK EXCHANGE

The Company's shares are included in the Level 1 (A1) Quotation List of the Moscow Exchange (ticker code: **SFIN**). International Securities Identification Number (ISIN): **RU000A0JVV89**.

The shares of SAFMAR Financial investments are included in the key indices of the Moscow Exchange (MOEX Russia and RTS), as well as its Broad Market Index and the sectoral index for Financials. As at 31 December 2017, SAFMAR Financial investments' weight in MOEX Russia and RTS Indices stood at **0.26%**.

Performance of SAFMAR Financial investments ordinary shares on the Moscow Exchange

RUB	2017	2016
Maximum closing price	799.0	746.0
Minimum closing price	619.5	571.0
Price at the beginning of the year	723.0	571.0
Price at the end of the year	741.0	724.0
Average trading volume (RUB m)	163.2	62.1
Capitalisation at year end (RUB m)	82,723.6	80,870.1



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.

30%

Increase in the value of shares since the Company's IPO in December 2015

¹ As at 31 December 2017. Free float as at 31.12.2017 stood at 29% and was confirmed by the Moscow Exchange at www.moex.com/ru/listing/free-float.aspx.

MARKET MAKERS

In 2017, the Company signed market making agreements with a number of investment and brokerage firms, including ATON, IT Invest, FINAM and ZERICH Capital Management. As at the Report date, the Company's market makers are 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 company 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 Company neither accrued and/or paid dividends nor distributed profits in 2013-2016. On 15 December 2017, the Extraordinary General Meeting of Shareholders of SAFMAR Financial investments resolved to pay interim dividends on the Company's ordinary registered shares for 9M 2017 in the amount of one billion four hundred fifty-one million two hundred ninety-one thousand two hundred and eighty-three roubles (RUB 1,451,291,283), or thirteen roubles (RUB 13) per ordinary share. The declared dividends were paid in full.

The Regulation on Dividend Policy is available on the Company's web site at

 www.safmarinvest.ru

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.e-disclosure.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.

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 2017

(in thousands of Russian rubles, unless otherwise stated)

To view independent auditor's report and notes to the consolidated financial statements of PJSC SAFMAR Financial investments for FY2017, please see Appendix 2 to this Report or visit the disclosure websites at



www.e-disclosure.ru

www.safmarinvest.ru/en/docs

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	8	14,100,288	54,801,373
Financial instruments at fair value through profit or loss	9	165,875,030	150,110,242
Deposits with banks	10	292,018	14,351,201
Net investment in leases after impairment allowance	11	40,551,497	27,470,596
Reverse repurchase agreements and accounts receivable	12	44,249,839	154,744
Equipment purchased and advances to suppliers for lease operations	13	789,586	564,785
Deferred acquisition costs	14	4,594,159	4,212,451
Current income tax prepayment		299,839	105,747
Deferred tax assets	36	43,332	70,808
VAT recoverable		1,037,664	108,837
Property and equipment	15	353,635	342,818
Investment in associates	16	18,903,926	16,270,417
Goodwill	17	24,200,607	24,200,607
Other assets	18	1,625,461	1,138,471
Total assets		316,916,881	293,903,097
Liabilities			
Liabilities under compulsory pension insurance contracts	19	187,892,270	181,893,057
Liabilities under non-state pension arrangements	19	8,147,539	7,881,605
Borrowings	20	21,790,611	10,204,713
Liabilities under insurance agreements		–	857,125
Advances received from lessees		1,207,176	610,169
Bonds issued	21	9,658,428	11,208,185
Current income tax payable		37,713	336
Deferred tax liabilities	36	1,246,235	760,202
VAT payable		54,611	36,939
Other liabilities	22	2,314,344	2,103,240
Total liabilities		232,348,927	215,555,571
Equity			
Share capital	23	74,797	74,797
Treasury shares	23	(875,218)	(80,622)
Additional paid-in capital	23	67,204,629	67,201,144
Other reserves		26,450	424
Reserve for compulsory pension insurance and insurance reserve	23	3,278,038	2,315,955
Retained earnings		14,859,258	8,835,828
Total equity		84,567,954	78,347,526
Total liabilities and equity		316,916,881	293,903,097

Approved for issue and signed on behalf of PJSC "SAFMAR Financial investments" on 20 April 2018.

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 2017

(in thousands of Russian rubles, unless otherwise stated)

	Note	2017	2016
Interest income	24	9,294,264	6,892,556
Interest expense	24	(2,911,125)	(2,575,545)
Net interest income		6,383,139	4,317,011
Impairment charges on interest-earning assets	25	(84,813)	(10,826)
Net interest income after impairment charges on interest-earning assets		6,298,326	4,306,185
Pension contributions	26	8,002,590	122,542
Pension payments	27	(5,359,693)	(106,709)
Net gains of the pension fund from the placement of own funds, pension savings and pension reserves	28	6,266,460	3,071,776
Change in pension liabilities	29	(6,265,147)	(2,346,517)
Net gains from financial instruments at fair value through profit or loss	30	96,518	4,155
Share in net profit of associates	16	2,942,509	198,644
Net other income	31	2,093,938	1,955,103
Income from operations		14,075,501	7,205,179
Net foreign exchange gains/(losses)		74	(1,622)
Total income from operations and finance income		14,075,575	7,203,557
Staff expenses	32	(3,546,978)	(2,100,375)
Other operating expenses	33	(1,189,807)	(940,378)
Acquisition costs	34	(455,140)	(12,647)
Impairment charges on other assets	25	(50,246)	(10,603)
Other net income/(expense)	35	921,683	(35,337)
Profit before income tax		9,755,087	4,104,217
Income tax expense	36	(1,490,685)	(794,204)
Net profit		8,264,402	3,310,013
Other comprehensive income			
Share of other comprehensive income of associates		182,086	424
Total other comprehensive income		182,086	424
Total comprehensive income		8,446,488	3,310,437
Earnings per share (expressed in Russian rubles per share)	23	74.88	29.65

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

(in thousands of Russian rubles, unless otherwise stated)

	Note	Share capital	Treasury shares	Additional paid-in capital	Other provisions	Compulsory pension insurance reserve and insurance reserve	Retained earnings	Total equity
Balance at 1 January 2016		15,395	–	2,799,133	–	–	7,841,770	10,656,298
Net profit		–	–	–	–	–	3,310,013	3,310,013
Other comprehensive income for the period		–	–	–	424	–	–	424
Total comprehensive income for the period		–	–	–	424	–	3,310,013	3,310,437
Issue of shares		59,402	–	64,386,814	–	–	–	64,446,216
Acquisition and sale of treasury shares		–	(80,622)	15,197	–	–	–	(65,425)
Acquisition of subsidiaries		–	–	–	–	1,715,273	(1,715,273)	–
Changes in reserves for pension liabilities		–	–	–	–	600,682	(600,682)	–
Balance as at 31 December 2016		74,797	(80,622)	67,201,144	424	2,315,955	8,835,828	78,347,526
Net profit		–	–	–	–	–	8,264,402	8,264,402
Total other comprehensive income		–	–	–	–	–	182,086	182,086
Total comprehensive income		–	–	–	–	–	8,446,488	8,446,488
Acquisition and sale of treasury shares	23	–	(794,596)	3,485	–	–	–	(791,111)
Dividends paid	23	–	–	–	–	–	(1,434,949)	(1,434,949)
Changes in reserves for pension liabilities		–	–	–	–	962,083	(962,083)	–
Change in other reserves		–	–	–	26,026	–	(26,026)	–
Balance as at 31 December 2017		74,797	(875,218)	67,204,629	26,450	3,278,038	14,859,258	84,567,954

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(in thousands of Russian rubles, unless otherwise stated)

	2017	2016
Cash flows from operating activities		
Interest received	8,614,340	6,944,490
Interest paid	(3,160,548)	(2,446,171)
Gains from the placement of own funds, pension savings and pension reserves	10,682,026	1,930,207
Gains from insurance operations	1,256,463	1,059,180
Proceeds from disposal of repossessed assets	886,008	1,133,598
Cash paid to employees and payroll related taxes paid	(2,426,454)	(2,091,522)
Other receipts/(payments)	8,241	(34,745)
Other operating expenses	(1,355,483)	(954,710)
Cash flows from operating activities before changes in working capital	14,504,593	5,540,327
Changes in operating assets/liabilities		
Financial instruments at fair value through profit or loss	(18,290,752)	2,104,634
Deposits with banks	12,591,440	6,843,524
Net investment in leases	(13,585,188)	(2,743,043)
Reverse repurchase agreements and accounts receivable	(44,095,095)	39,654
Payments received/(advances) on leases	377,296	(61,407)
Other assets	(956,984)	1,106,402
Pension liabilities	2,642,897	15,833
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 7)	1,033,994	–
Other liabilities	(671,781)	(361,366)
Net cash (used in)/ from operating activities before income tax	(47,483,574)	12,484,558
Income tax paid	(1,214,815)	(985,249)
Net cash (used in)/ from operating activities	(48,698,389)	11,499,309
Net cash (used in)/ from operating activities	(48,698,389)	11,499,309
Cash flows from investing activities		
Proceeds from sale of property and equipment	27,969	13,600
Purchase of property and equipment	(106,361)	(121,986)
Acquisition of a subsidiary, net of cash disposed	–	26,258,051
Proceeds from disposal of a subsidiary (Note 6)	1,575,903	630,000
Net cash flows from (used in) investing activities	1,497,511	26,779,665
Cash flows from financing activities		
Borrowings received	13,800,000	8,800,000
Borrowings repaid	(2,288,070)	(8,527,672)
Bonds issued	2,582,489	7,407,683
Bonds repaid	(6,200,000)	(7,639,344)
Proceeds from issue of shares	–	14,999,995
Dividends paid	(1,394,668)	–
Net cash from financing activities	6,499,751	15,040,662
Effect of exchange rate changes on cash and cash equivalents	42	(275)
Net (decrease)/increase in cash and cash equivalents	(40,701,085)	53,319,361
Cash and cash equivalents at the beginning of the period (Note 8)	54,801,373	1,482,012
Cash and cash equivalents at the end of the period (Note 8)	14,100,288	54,801,373

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
m²	square metre
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 2017

Energy resource	Volume	Unit	Costs, RUB '000
Electricity	698,990	kWh	2,885
Motor petrol	227,171	Litre	7,591
Diesel fuel	3,734	Litre	137

In 2017, 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' 2017 Annual Report and are available on the following disclosure websites: www.safmarinvest.ru, www.e-disclosure.ru.

APPENDIX 1
Corporate Governance Code compliance report.

APPENDIX 2
Annual consolidated IFRS financial statements for 2017 (with the auditor's report).

APPENDIX 3
Annual consolidated RAS accounting (financial) statements for 2017 (with the auditor's report).

APPENDIX 4
Major transactions made by the Company in 2017 upon the approval of its governance bodies, and transactions approved by its Board of Directors under the Charter.

APPENDIX 5
Interested-party transactions Report for 2017.

CONTACTS

PJSC SAFMAR FINANCIAL INVESTMENTS

22, Tverskaya St.,
Moscow, 125009, Russia
Tel.: +7 (495) 901-03-61, +7 (495) 909-89-69
E-mail: info@safmarinvest.ru
www.safmarinvest.ru

FOR SHAREHOLDERS

Corporate Relations and Disclosure Department
Tel.: +7 (495) 909-89-69
E-mail: info@safmarinvest.ru

FOR INVESTORS AND MEDIA

Communications and Investor Relations Department
Tel.: +7 (495) 901-03-61, +7 (495) 909-89-69
E-mail: ir@safmarinvest.ru, pr@safmarinvest.ru

REGISTRAR

Servis-Reestr JSC
Registered and postal address: 12 Sretenka St.,
Moscow, 107045, Russia
Tel.: +7 495 608 1043, +7 495 783 0162
E-mail: sekr@servis-reestr.ru
Working hours: MON-THU from 9:00 to 16:00,
FRI from 9:00 to 13:00
www.servis-reestr.ru

AUDITOR

Ernst & Young LLC
Sadovnicheskaya naberezhnaya, 77, building 1,
Moscow, 115035, Russia
Tel.: +7 (495) 755-9700
Fax: +7 (495) 755-9700
Email: moscow@ru.ey.com



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Thank you.

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