

Appendix 5.

Opinion of the Russian Regional Network on Integrated Reporting Commission on the Annual Report of the Engineering Division of State Atomic Energy Corporation ROSATOM for 2018 Review to assuring its compliance with the International Integrated Reporting Standard



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on the Annual Report of the Engineering Division of State Atomic Energy Corporation
ROSATOM for 2018 Review
to assuring its compliance with the International Integrated Reporting Standard**

07/10/2019

This Opinion was prepared by the Russian Regional Network Commission for Integrated Reporting (hereinafter the RRN Commission) on the compliance of the Engineering Division of ROSATOM (hereinafter JSC ASE EC, Company) Annual Report for 2018 with concepts, principles and elements of the International Integrated Reporting Standard (hereinafter <IR> Framework).

During the period from June, 20 to July 2, 2019, the RRN Commission conducted an analysis of the Annual Report at the initiative of the Company, which resulted in the Opinion of this Report in accordance with the Integrated Reports Certification rules.

The members of the RRN Commission are experts in the field of corporate reporting and sustainable development and comply with the ethical requirements of independence and objectivity of expert assessments.

The Report was assessed by the following criteria:

- Using the fundamental concepts of the <IR> Framework: value creation for the organization and for others, capital, the value creation process.
- Compliance with the guiding principles of the <IR> Framework, which underlie the way information is presented: strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness; consistency and comparability.
- The presence of the main content elements of the <IR> Framework: organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook.

Detailed description of <IR> Framework concepts, principles and content elements is covered in the International Integrated Reporting Standard. (<http://integratedreporting.org/resource/international-ir-framework/>).

The aim of this assurance is to confirm the compliance of the report with the International Integrated Reporting Standard. The task of assurance does not include verification of the authenticity of the actual data contained in the report.

The Company has the right to use this Opinion, both for internal corporate purposes and for communication with interested parties, publishing it without any changes.

RRN Commission Opinion

This Report is the fourth integrated annual report of the Engineering Division of the State Corporation Rosatom and the eleventh JSC ASE EC. The Report comprehensively reflects the Company's operations, including financial and non-financial aspects and the results of operations for the reporting period.

Based on the analysis carried out by members of the Commission, the fact that the Report complies with the main provisions of the International Integrated Reporting Standard is confirmed.

Conclusions

The report has top management message. The report contains a detailed Materiality definition process and the materiality matrix. The report informs about the principles, formats and tools of interaction with stakeholders and the updated stakeholders' map. It also indicates how the stakeholders' requests were taken into account.

The Report complies with the logical structure properly, contains hyperlinks to more detailed information on the Company's website and in reports of subsidiaries. There are also internal cross-references.

The information in the Report is certified by the Internal Control and Audit Service. The Report was certified by external independent auditors: "Nexia Pacholli" LLC (financial information auditor) and "Financial and Accounting Consultants" LLC (non-financial information auditor). The Report also passed an external stakeholder and expert assurance certification by the Russian Union of Industrialists and Entrepreneurs Council for non-financial reporting.

The Report provides Company's performance and the external environment overview through a description of the main activities, markets and position in the industry. In addition, a business model and a capital transformation scheme are presented, which includes a wide range of indicators' changes based on the results of activities in 2018.

The report describes the risks (using a risk map) with likelihood evaluation of risk realization and potential damage to the Company. This section is a strong point of the report. The Company's risks are divided into categories: political, economic and financial, project risks, reputational, technological, etc. The tabular form describes the key risk management and response to realised risks in 2018, as well as the results of risk management in the reporting period.

Final statements

Now Company is transforming its operations and management system, respectively, the public reporting system is also reorganising in response to these changes. This annual report for 2018 forms a complete picture of the Company's activities and its development areas. It describes approaches to engaging with stakeholders, including them to report preparing process, to highlight material topics on a wide range of issues. The information is disclosed briefly and at the same time with sufficient completeness in accordance with the fundamental concepts and leading principles of the <IR> Framework.

The report was prepared using guidelines and standards applied in Russian and international reporting practices, including the Global Reporting Initiative standards (Global Reporting Initiative SRS), the International Integrated Reporting Standard (<IR> Framework), AA1000 series standards (Institute of Social and Ethical Accountability), etc.

The usage of various forms of independent assessment of the Report (professional audit of financial and non-financial reporting information, public / stakeholder certification and public / expert certification) indicates the responsible attitude of the Company to its obligations to reliably inform stakeholders and the quality of disclosed information.

Recommendations

The RRN Commission notes the high quality of the Report and its compliance with the International Integrated Reporting Standard. For a greater disclosure of material topics and more

complete compliance with the <IR> Framework, the RRN Commission has drawn up a number of recommendations Company can take into account in subsequent reporting cycles.

More carefully work out the strategic focus and future orientation. The report does not sufficiently explain how an organization's strategy relates to an organization's ability to create value in the short, medium and long term. It is also necessary to add the some persons' opinions about the relationship between the past and future performance, as well as factors that can change this relationship, and how the organization achieves a combination of short-term, medium-term and long-term strategic goals. Provide planned information on key indicators and on the main programs implemented in the Company. It is recommended to supplement the Report with a small section devoted to the development strategy of the Division, where it will be possible holistically describe the mission, vision (perspective state, what they are going to strive for in the future strategy), strategic goals, objectives and activities to achieve them.

To finalise presentation of the business model and other report's elements connectivity. Linking business model information to other elements of the Report content can be shown graphically. For example, the business model presented in the Report is tied to capital and performance, but does not correlate with strategy, risks and opportunities. In addition, whenever possible, for all types of capital in the business model, give an assessment of what contribution they make to the Company's revenue.

Supplement the description of the risk management and internal control system with a description of competence distribution among the corporate governance participants (Board of Directors, executive bodies, management). This can be done in the risk section or in the section on corporate governance. For external users, information on how the organization is governed is important, especially in such an important part as risk management. In addition, it is recommended to expand the description of the external environment to make the Report able to presents a description of the external environment challenges and how the Company responds / will respond to it. Some elements of the answer to this question can be found in interviews with representatives of top management, but such information is not available as a dedicated section, which complicates the analysis.

Provide more information on strategy and resource allocation. The Report does not describe the resources required for the strategy implementation, and also does not spell out the medium-term and strategic goals of the organization.

Supplement the Report with information on the KPIs itself and its composition - this will allow assessing the future development and achievement in the past. It is desirable that KPIs cover all major aspects of the activity (not only financial and production capital), but also all types of capital.

Improve the section "Top management statements". In this section it is recommended to place information on the role of persons with managerial functions in the preparation and presentation of the Report. Also, there is desirable to describe actions which were taken to include the Top management statements in future reports and specify the time frame for such inclusion. The Report includes only a message from the President (executive body) of the Company. So, it is recommended to include also a consolidated letter from the Chairmen of the Boards of Directors of the main organizations of the Engineering Division. The absence of such item may create the impression that everything described in the Report relates only to the level of management, includes only operational issues and does not affect the competence of the Board of Directors.

Additional recommendations

It is also recommended to disclose the consolidated financial statements (if available) with the auditor's opinion; in its absence explain how the financial KPIs that are included in the report are determined.

The RRN Commission positively assesses the content of the Report, underlying the JSC ASE EC commitment to the openness and transparency principles, and confirms that the JSC ASE EC annual integrated report for 2018 was certified for compliance with the International Integrated Reporting Standard.

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