

GLOBAL COLORS ZAO

ANNUAL MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

The Board of Directors presents the annual report and audited financial statements of the Company for the year ended 31 December 2017.

Basis of preparation of the annual Financial Statements of the Company

The balance sheet and the income statement as well as the annual report of our Company for 2017 have been drawn up and submitted in line with the principles determined by the Russian Accounting Standards.

Pursuant to the regulations, our annual report shall present the work and transaction flows of our Company pertaining to the respective financial year as well as the financial status thereof in all aspects by protecting the rights and the interests of our Company; enable our shareholders to have access on any information regarding the financial status of our Company completely and properly; evaluate the general properties of our Company's financial performance and financial status as well as the basic risks encountered by it and propound, through accounting and financial reporting data, that the activities and the services of our Company are performed in most efficient, reliable and uninterrupted manner.

Principal activities and nature of operations of the Company

The principal activities of the Company, which are unchanged from last year, are the production of chemicals, wholesale trade, retail trade, providing services for business, foreign economic activities and international trade.

Continuity of activity

These financial statements have been prepared based on the business continuity principle, which assumes that the Company will normally continue its activity in the foreseeable future without entering into a state of liquidation or significant reduction of the activity.

To assess the applicability of this presumption, management analyzes forecasts of future cash inflows. Based on these analyzes, the management believes that the Company will be able to continue its activity in the foreseeable future and therefore, the application of the principle of continuity of activity in the preparation of the financial statements is justified.

Review of current position, future developments and performance of the Company's business

In 2017 there was a slowdown in the Turnover by 10,53% to 921.8 million RUB from 1030.3 million RUB in the previous year. The Profits before taxes in 2017 were dropped to 29.3 million RUB from 182.5 million RUB in 2016 and the Net Profits to 21.5 million RUB from 144.6 million RUB in the year before.

The positive trend of 2016 was halted due to the problems in the availability of a basic raw material. The scarcity of this raw material and its sharp increase in price resulted in the loss of sales in the market of a basic product in our product portfolio. For the next year we expect to gradually recover our position.

Main investments during the year

The company purchased the extruder ZSE50/1 for the amount of 35 million RUB.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company are disclosed here below:

Use of financial instruments by the Company

The Company is exposed to foreign exchange currency risk, interest rate risk, credit risk and dividends from the financial instruments it holds.

Foreign exchange currency risk

The Company is exposed to the fluctuations of the local currency exchange rate.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at

variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities - primarily trade receivables and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

Credit risk related to trade receivables: This is managed based on established policies, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal ratings. Credit quality of the customer and outstanding customer receivables are assessed and regularly monitored. The Company does not hold collateral as security.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

Dividends

The dividend distribution policy of the Company is defined in the articles of association. The dates as well as the manner and method of dividend payments to the shareholders are resolved by the general board. The general board may delegate the authority to determine the date, percentage and method of dividend distribution to the board of directors.

Share capital

There were no changes in the share capital of the Company during the year under review.

Organization and development of internal control within the Company

The purpose of internal control is to ensure the coherence of objectives, to identify the key success factors and to communicate to the Company's management, in real time, the information regarding the performances and perspectives.

The control activities are an integral part of the management process through which the Company aims to achieve the proposed objectives.

The control aims at applying the norms and procedures of internal control, at all hierarchical and functional levels: the decisional authority regarding the definition on hierarchical levels of the approvals, the evaluation of the operational performances, the security of the assets, the separation of the functions.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2017 and at the date of this report are the same.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the balance sheet

On March 13th, 2018 the Company changed its legal form from ZAO to LLC.

The President of the Board



Mr. Michail Lempidakis

March 29th, 2018
