



# ANNUAL REPORT

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# RESULTS HIGHLIGHTS

## FINANCIAL RESULTS

REVENUE

**98,1** <sup>^13%</sup>  
RUB  
BN

THE COMPANY'S REVENUE HIT A RECORD RUB 98.1 BILLION, UP 13% YEAR-ON-YEAR, PRIMARILY DRIVEN BY INCREASED SCOPE OF REAL ESTATE BUSINESS IN MOSCOW.

PROFIT

**9,2** <sup>v14%</sup>  
RUB  
BN

Profit for the period decreased by 14% year-on-year to RUB 9.2 billion affected by higher finance costs. EPS stood at RUB 90.72.

EBITDA

**19,3** <sup>^4%</sup>  
RUB  
BN

EBITDA increased by 4% year-on-year to RUB 19.3 billion.

NET DEBT / EBITDA

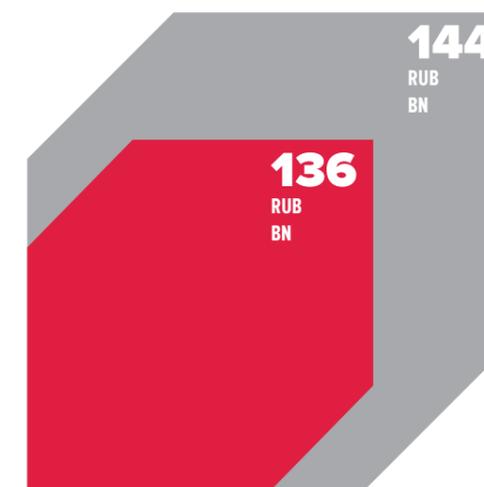
**1,56**

Net debt increased up to RUB 30.1 billion. Net debt/EBITDA ratio stood at 1.56. The increase of the company's debt was primarily attributed to the necessity to finance our large-scale real estate development projects and land bank expansion. Average borrowing rate declined by 0.85%.

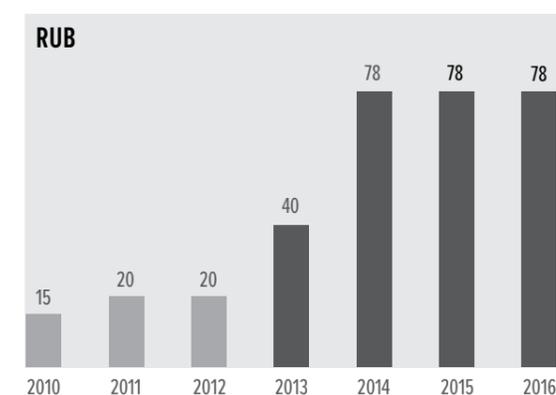
REAL ESTATE PORTFOLIO

**144** RUB  
BN

Real estate portfolio was valued by Knight Frank at RUB 144 billion (as of December 2016), versus the company's market cap of RUB 99 billion. Assessed value per sqm up 12%.



DIVIDEND PER SHARE



On May 5, 2017 the Board of Directors of LSR Group recommended the Annual General Meeting of Shareholders to adopt a dividend of RUB 78.00 (seventy eight rubles) per ordinary share based on the results of 2016 financial year.

## OPERATIONAL HIGHLIGHTS

## COMPLETIONS

788<sup>TH</sup>  
SQM

Completions amounted to 788 thousand sqm and are strictly in line with the projects' schedules.

38%

THE SHARE OF MORTGAGE SALES STOOD AT 38% IN 2016 AND REACHED 42% IN THE FOURTH QUARTER

## NEW CONTRACT SALES

681<sup>TH</sup>  
SQM

New contract sales reached 681 thousand sqm, up 11% year-on-year, driven by the increased mortgages availability and outperformance of Moscow projects.

^ 11%

NEW CONTRACT SALES INCREASED BY 11%

## AVERAGE SELLING PRICE

104<sup>RUB</sup>  
<sup>TH</sup>

Average selling price grew by 15% year-on-year, to RUB 104 th in 2016, driven by the increased contribution from our real estate development business in Moscow. Average price per sqm in Moscow grew by 45% in 2016.

729<sup>TH</sup>  
SQM

729 TH SQ M OF NSA WAS LAUNCHED TO THE MARKET

## KEY FINANCIALS

	2015	2016	Change, %
Revenue, RUB m	86 830	98 072	13%
EBITDA, RUB m	18 632	19 298	4%
EBITDA, %	21%	20%	-
Operating profit, RUB m	13 763	14 031	2%
Operating profit, %	16%	14%	-
Profit for the year, RUB m	10 646	9 163	(14%)
	<b>31.12.15</b>	<b>31.12.16</b>	<b>Change, %</b>
Equity, RUB m	67 994	68 459	1%
Total debt, RUB m	33 018	55 695	69%
Net debt, RUB m	12 584	30 065	139%
Net debt/ EBITDA	0,68	1,56	-
	<b>2015</b>	<b>2016</b>	<b>Change, %</b>
Earnings per share, RUB	104,60	90,72	(13%)
Dividend per share, RUB	78	78 <sup>1</sup>	-
Share price at year-end, RUB <sup>1</sup>	676	959	42%
Shares outstanding	103 030 215	103 030 215	-
Market capitalization at year-end <sup>2</sup> , RUB m	69 597	98 806	42%

<sup>1</sup>Based on ordinary share price on MICEX.

<sup>2</sup>Based on ordinary share price on MICEX.

# STATEMENT OF CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE



**ALEKSANDR VAKHMISTROV**  
CHAIRMAN OF THE BOARD OF DIRECTORS  
OF PJSC LSR GROUP



**ANDREY MOLCHANOV**  
CEO AND CHAIRMAN OF THE EXECUTIVE  
COMMITTEE OF PJSC LSR GROUP

## DEAR SHAREHOLDERS,

The reported year was successful for the company. We have entered a growth phase after the tough 2015 and hit a record revenue of RUB 98bn, up 13% year-on-year.

Today we can say that we have overcome another economic downturn, and we look ahead with confidence. The Russian economy is entering a recovery phase, and the Government expects GDP growth in 2017. The inflation rate was pulled down to 5–6%. If this indicator is maintained in 2017, growth in real household disposable income is expectable.

**WE HIT A RECORD REVENUE OF RUB 98 BN,  
UP 13% YEAR-ON-YEAR**

Mortgage lending obviously became the key factor driving up the demand in the housing market. According to AIZhK (Russia's Agency for Mortgage Lending), the domestic mortgage market increased by 27% year-on-year in value terms. Nearly 860 thousand loans were issued in 2016. By the end of the year the average borrowing rate decreased to the pre-crisis level and amounted to 11.55%. In 2017, the largest mortgage banks continued to reduce the rates.

We also observe a material increase of the mortgages share on the company's level. As of the year-end the share of mortgages in our sales structure exceeded 40%. As of today we have partnership agreements with 20 banks. We have created a department for mortgages to facilitate interaction between a client and banks, which saves lots of time and increases the loan approval rate. We are now running an exclusive mortgage programme with Raiffeisen bank with 8.5% rate for the first year and 11.55% for consecutive years.

The increasing availability of mortgages and stagnation of prices in the real estate market create a favorable environment for Russia's residents to improve their living conditions. And the customers tend to choose in favor of large solid companies. The same choice is made by banks, land owners and the government which we can tell from the latest amendments to the Federal law FZ-214.

## FINANCIAL AND OPERATING RESULTS

In 2016, in all regions of operation we entered into new contracts for the sale of 681 thousand sqm. The value of the contracts increased by 29% year-on-year, to reach RUB 70.6bn. We completed 788 thousand sqm and the recognitions amounted to 779 thousand sqm. In the reported period our real estate development revenue increased by 12% year-on-year to reach RUB 68.8 billion. EBITDA increased up to RUB 16 billion. The growth was primarily driven by the increased scope of operations in Moscow, which accounted for RUB 20.7 billion or more than 30% of our real estate development revenue. An important contribution was made by the early completion of our project Donskoy Olymp which added RUB 12.6 billion of revenue and RUB 3.6 billion of gross profit. Our operations in St. Petersburg accounted for 62% of real estate development revenue or RUB 42.4 billion. A slight decrease was due to the projects schedule. However the mix of the recognized projects favorably affected EBITDA margin which grew from 29% to 34% thanks to contribution of such projects as Sofia and Kalina Park, which boast gross margins exceeding 40%.

**MORTGAGE LENDING OBVIOUSLY BECAME  
THE KEY FACTOR DRIVING UP THE  
DEMAND IN THE HOUSING MARKET.  
WE ALSO OBSERVE A MATERIAL INCREASE  
OF THE MORTGAGES SHARE ON THE  
COMPANY'S LEVEL**

The growth of our building materials business was primarily driven by the aggregates. Within the reported period we supplied our crushed granite and sand to the largest infrastructure projects carried out in St. Petersburg and the Leningrad region, including M11 federal highway, Western High-Speed Diameter, Scandinavia highway. As a result, our crushed granite sales revenue increased by 23% to RUB 3.2 billion. EBITDA increased by 68% to RUB 817 million. Sand sales revenue grew by 17% to reach RUB 2.3 billion. And EBITDA increased by 54% to RUB 768 million.

## REAL ESTATE PORTFOLIO

We've completed valuation of our real estate portfolio undertaken by Knight Frank as an independent external appraiser. As of the end of 2016, the net sellable area of our projects was equal to 8.8 thousand sqm. The market value of our real estate portfolio was RUB 144 billion. The assessed value per square meter has increased by 12% year-on-year. Just for comparison, as of the end of 2016 the company's market cap was RUB 99 billion.

**AS OF THE END OF 2016, THE NET SELLABLE AREA OF OUR PROJECTS WAS EQUAL TO 8.8 THOUSAND SQM. THE MARKET VALUE OF OUR REAL ESTATE PORTFOLIO WAS RUB 144 BILLION**

In 2016, we acquired several unique projects including a land plot of 12.6 hectares for hi-end real estate development on Petrovsky island in St. Petersburg. While traditional locations for elite developments in the city are basically exhausted Petrovsky island becomes the main focus for homebuilders. At the same time the total capacity of the island amounts to 380 thousand sqm only, of which more than 200 thousand sqm will be constructed by LSR Group. Thus, we ensured more than 50% market share in this exclusive location. Besides we have purchased the land plots at the final stage of the permitting process, which allows us to start construction and pre-sales already this autumn. We continue to monitor the markets searching for attractive land plots in terms of price and the permitting stage.

## DEBT

As of the end of 2016 our gross debt was RUB 55.7 billion. Net debt stood at RUB 30 billion. Net debt/EBITDA ratio was 1.56. The debt financing was primarily used to attract funds for our large-scale real estate development projects and land bank expansion, including land plots on Petrovsky island in St. Petersburg and a new hotel project in Germany.

## STRATEGY

The company's strategy remains intact. We still focus on three largest and wealthiest regions of Russia: St. Petersburg, Moscow and Yekaterinburg. However our strategic goals in these markets are totally different. In St. Petersburg we strive to maintain our leadership positions in all segments and improve the project mix by concentrating efforts on the most marginal projects.

However the potential of our growth in the home market is very limited due to the market's capacity and our current status of an absolute leader. That is why Moscow becomes the focus for our expansion. We aim to increase the scope of our operation in Moscow up to the level we have in St. Petersburg. As of today Moscow already accounts for 40% of our pre-sales in terms of value, but only 28% in terms of sqm. We do not plan to enter to new geographic markets or invest in new businesses. We will stick to what we do best based on the vertically integrated business model we replicated in all three regions.

**WE AIM TO INCREASE THE SCOPE OF OUR OPERATION IN MOSCOW UP TO THE LEVEL WE HAVE IN ST. PETERSBURG. THAT IS WHY MOSCOW BECOMES THE FOCUS FOR OUR EXPANSION**

## DIVIDENDS

We traditionally treat dividends as the main means to reward our investors for their trust in the company. Over the last three years we've paid dividends worth RUB 20bn. In 2016, we paid dividend of RUB 78 per share based on 2015 full year results. On May 5th, 2017 the company's Board of Directors recommended the Annual General Meeting of Shareholders to adopt a dividend of RUB 78 per share based on 2016 financial year.

## WE ARE OPTIMISTIC ABOUT ENTERING 2017

**AND EXPECT FURTHER GROWTH OF DEMAND FOR REAL ESTATE BACKED BY ECONOMIC RECOVERY AND INCREASING AVAILABILITY OF MORTGAGES.**

For our part, we intend to launch another 890 thousand sqm to the market and sell 770 thousand sqm.

We sincerely hope that the next year will be successful for you!

**ALEKSANDR VAKHMISTROV**  
CHAIRMAN OF THE BOARD OF DIRECTORS OF PJSC LSR GROUP

**ANDREY MOLCHANOV**  
CEO AND CHAIRMAN OF THE EXECUTIVE COMMITTEE  
OF PJSC LSR GROUP

# KEY EVENTS

## JANUARY

- LSR Group is included in the list of strategic companies of St. Petersburg in the residential construction category.
- LSR Group launches a large-scale project Civilization in Oktyabrskaya embankment in St. Petersburg. The company plans to build more than 800 thousand sqm on a land plot of 60 hectares by 2025.



## FEBRUARY

- LSR Group starts pre-sales in Luchi project in Moscow. The company will construct more than 825 thousand sqm by 2021.



- ZILART is awarded a special prize as the best brownfield redevelopment project at II Urban Development Contest of the Russia's Construction Ministry.

## MARCH

- LSR Group starts pre-sales in Lot 6 and Lot 3 of the project ZILART. The buildings are scheduled for completion in 2018.
- LSR Group is at the top of the list of the most trusted real estate developers of the Moscow region compiled by the Ministry of Construction Complex of the Moscow Region.

## APRIL

- LSR Group acquires land plots for construction of 310,000 sqm in Yekaterinburg.

**LSR GROUP IS THE WINNER OF BUILDER OF THE YEAR CONTEST IN THREE CATEGORIES.**

## MAY

- LSR Group starts pre-sales in Lot 8 of ZILART. The building is scheduled for completion in 2018.



- LSR Group starts pre-sales in its new project Tsvetnoy Gorod in St. Petersburg. The company will construct 2.5 million sqm of housing on a land plot on the bank of Okhta river.

## JUNE

- LSR Group starts pre-sales in a new residential development in Rastochnaya Street in Yekaterinburg. The company will build 19.5 thousand sqm by the end of 2017.
- LSR Group enters into a contract for the construction of a 16-storey dormitory for the students of the Ural Federal University named after Yeltsin in Yekaterinburg. The price of the contract amounts to RUB 851 million.

## JULY

- LSR Group is the leading real estate developer in Saint-Petersburg and the Leningrad Region, according to the rating published by Expert - North-West magazine.



- LSR Group delivers its first batch of clinker bricks to Germany.



## AUGUST

- RASK, Russian rating agency of construction industry, assign A2 reliability rating to LSR Group: excel-lent (very high) reliability level.



- LSR Group is awarded the title of the Elite Member of Russia's Building Complex at the 10th All-Russian Contest for the best construction company.



- First building is completed in ZILART project.



- The international rating agency MOODY'S upgrades the credit rating of LSR Group up to B1.

# KEY EVENTS

## SEPTEMBER

- LSR Group starts pre-sales in its new project Kaleidoskop in St. Petersburg. The project implies construction of 114.3 thousand sqm of housing.



- LSR Group's offices start interregional sales of real estate in all cities of presence.

- LSR Group is the leading real estate developer by sales volume according to RAEX rating agency.



## OCTOBER

- LSR Group starts pre-sales in the first building of its project Novaya Okhta Na Rechke in St. Petersburg. The company plans to build 230 thousand sqm on a land plot of 25 hectares.



- LSR Group opens a sales office in Prague.



- ZILART becomes the winner of RREF AWARDS and highly commended at European Property Awards.



- LSR Group becomes the winner Leader of Construction Quality contest.



## NOVEMBER

- LSR Group is awarded a golden badge Reliable Real Estate Developer of Russia at the federal non-commercial contest «New Reliable Construction of Russia».



- Business units of LSR Group become the winners of Stroy-master-2016 competition.



## DECEMBER

- LSR Group is the leading real estate developer in Russia by the volume of housing under construction according to the rating published by the National Union of Developers.

- LSR Group opens sales office in Murmansk.



## JANUARY

- LSR Group acquires land plots with an aggregate area of 13.6 hectares for construction of hi-end property on Petrovsky island in St. Petersburg. The company plans to build more than 200 thousand sqm there.



## FEBRUARY

- LSR Group and S&G Development GmbH start construction of the hotel complex located near the central station of Leipzig in Germany. The hotel complex will comprise Ramada (193 rooms) and H2 (336 rooms) hotels.

- LSR Group starts new project in Yekaterinburg. The new residential development Tsvetnoy Bulevard will comprise 9 buildings with a total area of more than 120 thousand sqm. The project is scheduled for completion by 2023.

## MARCH

- LSR Group is the largest elite real estate developer in St. Petersburg according to the rating published by the newspaper Delovoy Peterburg and the international consulting company Colliers International.



## APRIL

- LSR Group becomes the winner of contest Builder of the Year-2016.

## MAY

- LSR Group acquires a land plot of 4.23 hectares in Moscow for construction of 70 thousand sqm of comfort class housing.

# GEOGRAPHICAL DEVELOPMENT

LSR GROUP BUSINESS IS CONCENTRATED IN THE LARGEST REGIONS OF THE RUSSIAN FEDERATION:

**30**  
МЛН ЧЕЛОВЕК

- ST. PETERSBURG AND THE LENINGRAD REGION;
- MOSCOW AND THE MOSCOW REGION;
- YEKATERINBURG AND THE SVERDLOVSK REGION.

The aggregate population of these regions amounts to 30 million people, and the level of economic development is much higher than that in other regions.

## ST. PETERSBURG AND THE LENINGRAD REGION

ST. PETERSBURG AND LENINGRAD REGION ARE OUR HOME MARKET WHERE THE MAIN PART OF OUR BUSINESS IS CONCENTRATED TODAY.

In St. Petersburg and Leningrad Region we are engaged in real estate development and construction in all segments from mass market to elite real estate. We produce aggregates (sand, crushed granite) and building materials (bricks, reinforced concrete, ready-mix concrete, aerated concrete), provide tower crane rental services. Our products and services occupy a leading position in the regional market.

**POPULATION:**

St. Petersburg – 5.2 million  
Leningrad region – 1.8 million

**AVERAGE NOMINAL WAGE:**

St. Petersburg – RUB 47.2 thousand  
Leningrad region – RUB 35.2 thousand

St. Petersburg and the Leningrad region	Unit	Capacity	Number of plants/ remaining reserves
Reinforced concrete	th cubm	570	2
Ready-mix concrete	th cubm	1 947	7
Bricks	mln pcs	380	3
Aerated concrete	th cubm	380	1
Crushed granite	th cubm	8 064	578 mln cubm
Sand	th cubm	21 607	239 mln cubm
Tower cranes	units	140	-
Prefabricated construction	th sqm	500	-

## MOSCOW AND THE MOSCOW REGION

THE LOCAL MARKET FOR REAL ESTATE AND BUILDING MATERIALS IS THE LARGEST IN RUSSIA. THAT IS WHY IT IS CONSIDERED A PRIORITY TARGET FOR THE COMPANY'S GEOGRAPHIC EXPANSION.

We set up our real estate development business in Moscow in 2001. Now LSR Group participates in various projects as an investor, a real estate developer or a construction contractor, including the government orders, in Moscow and other cities in the region.

We also run a pre-fabricated factory and produce bricks, as well as provide tower cranes rental services.

**POPULATION:**  
Moscow – 12.4 million  
Moscow region – 7.4 million

**AVERAGE NOMINAL WAGE:**  
Moscow – RUB 68.7 thousand  
Moscow region – RUB 48.5 thousand

Moscow and the Moscow region	Unit	Capacity	Number of plants
Bricks	mln pcs	70	1
Tower cranes	units	72	-
Prefabricated construction	th sqm	250	-

## YEKATERINBURG AND THE SVERDLOVSK REGION

Yekaterinburg is the industrial, trade and cultural centre of the urals region.

It is the fourth largest city of Russia and one of the largest real estate markets in the country. That is why we continue to develop our business in Yekaterinburg. Apart from real estate development we are engaged in prefabricated construction in Yekaterinburg.

**POPULATION:**  
Yekaterinburg – 1.5 million  
Sverdlovsk region – 4.3 million

**AVERAGE NOMINAL WAGE:**  
Yekaterinburg – RUB 42.6 thousand  
Sverdlovsk region – RUB 32 thousand

Yekaterinburg	Unit	Capacity
Prefabricated construction	th sqm	200

## EUROPE

We set up our business in Munich, Germany in 2003. Our business unit is engaged in real estate development projects in Germany and supervises our contracts with foreign producers of construction machinery and equipment.



# CORPORATE STRUCTURE

BUSINESS UNITS OF LSR GROUP ARE FORMED ACCORDING TO THE PRODUCT PRINCIPLE, FOR EXAMPLE, LSR. CONSTRUCTION, LSR. REAL ESTATE, LSR. BRICKS.

The management company performs administrative functions and consists of the departments of HR, IT, finance, accounting, legal matters, investor and public relations, procurement and logistics.

## REAL ESTATE

- LSR. REAL ESTATE — NORTH-WEST
- LSR. REAL ESTATE — MOSCOW
- LSR. REAL ESTATE — URALS
- LSR. EUROPE

## CONSTRUCTION

- LSR. CONSTRUCTION — NORTH-WEST
- LSR. CONSTRUCTION — MOSCOW
- LSR. CONSTRUCTION — URALS
- LSR. PROJECT MANAGEMENT

## BUILDING MATERIALS

- LSR. AGGREGATES AND READY-MIX CONCRETE — NORTH-WEST
- LSR. CONCRETE
- LSR. BRICKS
- LSR. REINFORCED CONCRETE — NORTH-WEST
- LSR. TOWER CRANES

# MARKET

## MACROECONOMIC REVIEW

In 2016, Russia's economy continued to suffer from the negative impact of the recession. At the end of the year, GDP decline was 0.2% as compared to 2.8% in 2015. Inflation reached its record minimum and stood at 5.4%. For comparison, inflation was 12.9% in 2015. However, the main reason for low inflation was a significant decrease in consumer demand. The retail trade turnover shrank by 5.2% in 2016.

**BY THE END OF THE YEAR, THE AVERAGE BORROWING RATE IN RUBLES REACHED ITS RECORD LOW OF 11.55%**

Real disposable incomes of the population continue to fall down despite low inflation. The decline was 5.9% and it is the highest number observed since 1999.

Russia's construction industry still experiences tough times. According to Rosstat, construction volume decreased by 4.3% in 2016. During this year, 1156.5 thousand apartments with a total area of 79.8 million sqm were built in Russia, down 6.5% year-on-year. Moscow region is traditionally the leader by construction volume and accounts for 11.1% of total completions in Russia.

The mortgage lending market was recovering rapidly due to the state subsidies programme. In 2016, 856 mortgage loans worth RUB 1,473 billion were issued in Russia, up 22% by the number of loans and up 27% by their value. By the end of the year, the average borrowing rate in rubles reached its record low of 11.55%. Thus, state mortgage support programme became unnecessary. The slowdown of inflation to 4.3% in March 2017 and the reduction of the key rate to 9.75% allow for further

growth of mortgage lending availability. Early in 2017, banks continued to reduce borrowing rates. In 1Q 2017, Russia's Agency for Mortgage Lending (AIZhK) set the rate at 10.5%. Two largest players in the mortgage lending market, Sberbank and VTB, were offering loans at 10.4% and 10.6%, correspondingly.

The state subsidies programme and the increased availability of mortgages were the key factors to support Russia's housing construction industry during the year. As a result, the number of the registered agreements on co-investment into housing construction increased by 5% year-on-year, to 620 thousand. The share of mortgage sales was 42%.

**THE STATE SUBSIDIES PROGRAMME AND THE INCREASED AVAILABILITY OF MORTGAGES WERE THE KEY FACTORS TO SUPPORT RUSSIA'S HOUSING CONSTRUCTION INDUSTRY**

The decreased investment activity in the construction industry continue to affect building materials business. In 2016, cement production decreased by 11.4%, brick by 16.5%, concrete products by 15.6%.

## KEY MACROECONOMIC INDICATORS FOR THE PERIOD 2010-2016

Indicator	2011	2012	2013	2014	2015	2016
GDP, annual growth rate	4,3	3,4	1,3	0,6	(2,8)	(0,2)
Real disposable income, annual growth rate	0,4	4,6	4	(1)	(3,2)	(5,9)
CPI, Dec/Dec	6,1	6,6	6,5	11,4	12,9	5,4
Fixed investments, annual growth rate	8,3	6,6	(0,2)	(2,5)	(8,4)	(0,9)
The average price of URALS crude oil, USD/ barrel	109,3	110,5	107,9	97,6	51,2	41,7
Exchange rate RUB/USD, at the end of the period	32,2	30,4	32,7	56,3	72,93	60,66

## ST. PETERSBURG AND LENINGRAD REGION

**ST. PETERSBURG AND LENINGRAD REGION ARE OUR HOME MARKET WHERE THE MAIN PART OF OUR BUSINESS AND 64% OF OUR LAND BANK ARE LOCATED TODAY**

St. Petersburg is the second largest city in Russia. According to official statistics, 5.3 million people live here. Saint Petersburg is also one of the largest real estate markets in the country with at least 2.5 million sqm completed per annum. According to Petrostat, 57,421 apartments with a total area of 3.1 mln sqm were built in St. Petersburg in 2016, up 2.8% year-on-year. The volume of individual construction amounted to 195 thousand sqm. Krasnoselsky District (602 thousand sqm), Primorsky District (435.7 thousand sqm) and Moskovsky District (322 thousand sqm.) are the leaders by housing completions.

The bulk of the reconstruction is located in the historical districts of the city: Petrogradsky District (17 thousand sqm) and Central District (7 thousand sqm).

During this year, 42,589 thousand apartments with a total area of 2.2 million sqm were built in the Leningrad Region, down 6.5% as compared to 2015. The volume of individual housing construction amounted to 596 thousand sqm. Vsevolozhsk District accounted for more than 60% of total housing completions in the region (1.3 million sqm).

**LSR GROUP IS ONCE AGAIN THE LEADER BY HOUSING LAUNCHES. IN 2016, WE STARTED PRE-SALES OF**

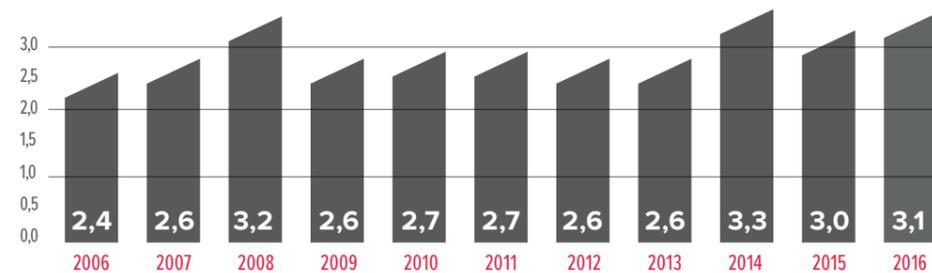
**336 TH SQM**

According to SPb Realty, more than 16.5 million sqm of residential real estate were under construction in St. Petersburg at the end of December 2016. The mass market segment accounted for 14.4 million sqm, business class housing – 1.7 million sqm. Leningrad region has 8.7 million sqm of mass market housing under construction, excluding individual homes. More than half of the total volume is being constructed as a part of large-scale complex developments.

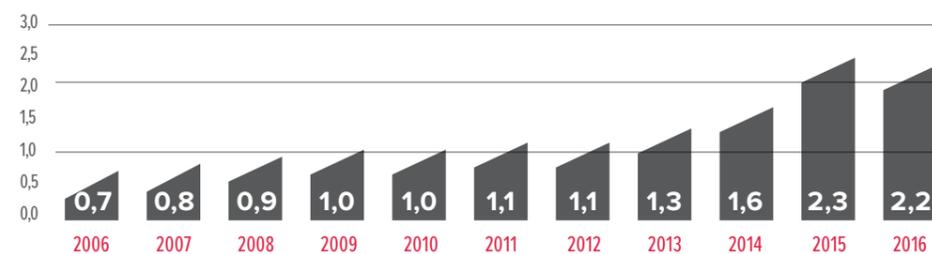
LSR Group is once again the leader by housing launches. In 2016, we started pre-sales of 336 thousand sqm including such projects as Civilization (84 thousand sqm), Shuvalovsky (72 thousand sqm), Novaya Okhta (59 thousand sqm) and Kalina-Park (59 thousand sqm). Demand for housing in Russia and in St. Petersburg is based on a range of fundamental factors including low housing penetration and miserable condition of the existing housing stock.

In 2016, more than 4 million sqm of housing were launched to the market in St. Petersburg and the Leningrad region, down 12% year-on-year. In particular, 2.7 million sqm were launched in St. Petersburg and 1.4 million sqm in the Leningrad region. Mass market segment accounts for 88% of the new supply and business class – for 9.6%. Nevsky, Primorsky and Krasnoselsky districts account for 43% of the total launches in St. Petersburg.

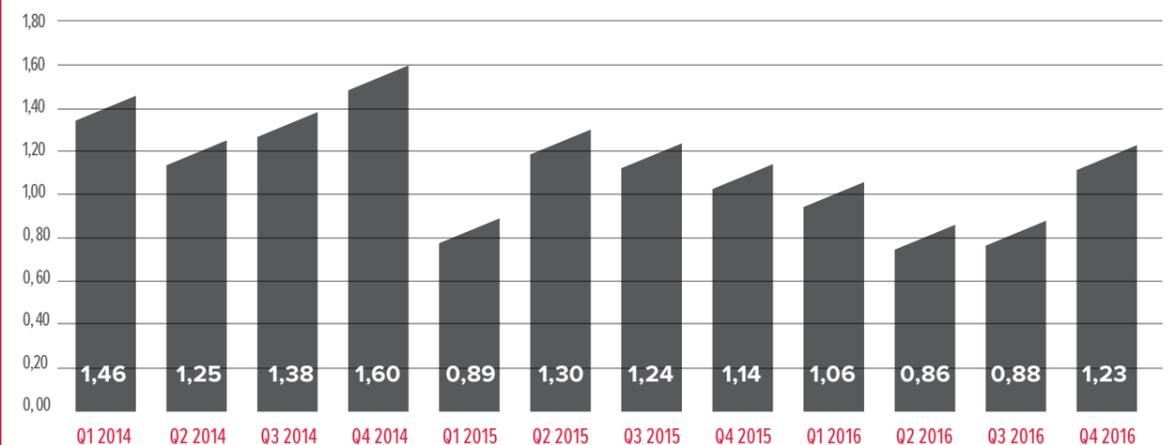
**HOUSING COMPLETIONS IN ST. PETERSBURG, MILLION SQM**



**HOUSING COMPLETIONS IN LENINGRAD REGION, MILLION SQM**



**HOUSING LAUNCHES IN ST. PETERSBURG AND LENINGRAD REGION, MILLION SQM**



The housing stock of St. Petersburg includes more than 2 million apartments with a total area of 123 million sqm., less than 23.6 sqm per capita, which is significantly below the average European level. The poor condition of the existing housing stock is another problem of the city. While official statistics indicates that obsolete housing accounts for less than 1% of the existing stock, whole neighborhoods of slums are not rehoused for decades. A significant part of the obsolete housing is located in the prestigious historic districts of the city: Central, Vasileostrovsky, Admiralteysky.

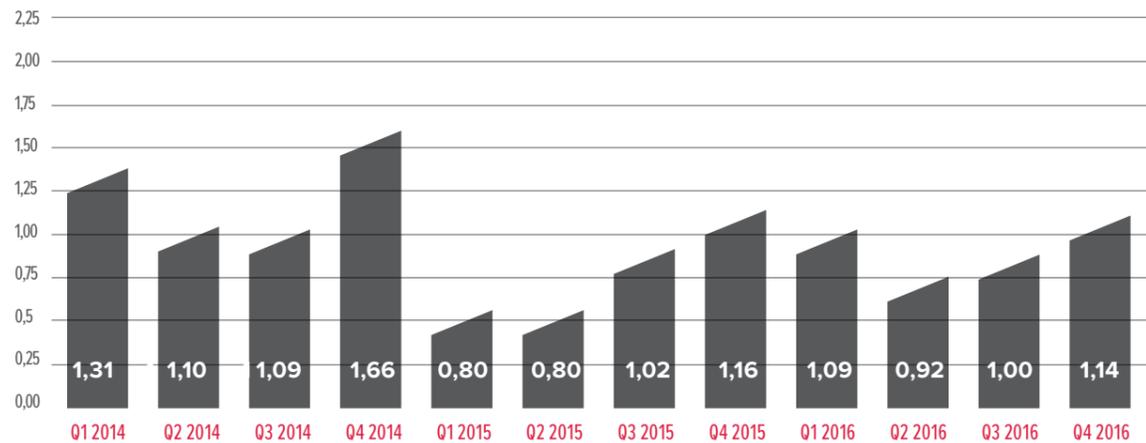
Mortgage lending is obviously one of the key factors driving up demand for new housing in St. Petersburg. The region ranks third in Russia by the number of mortgage loans issued (after Moscow and the Moscow Region).

According to the Central Bank, more than 43 thousand mortgage loans worth RUB 93.4 billion were granted in St. Petersburg in 2016. Mortgage market increased by 40% in value terms as compared to 2015. The average weighted rate on mortgage loans fell from 13.16% to 12.08% during the year.

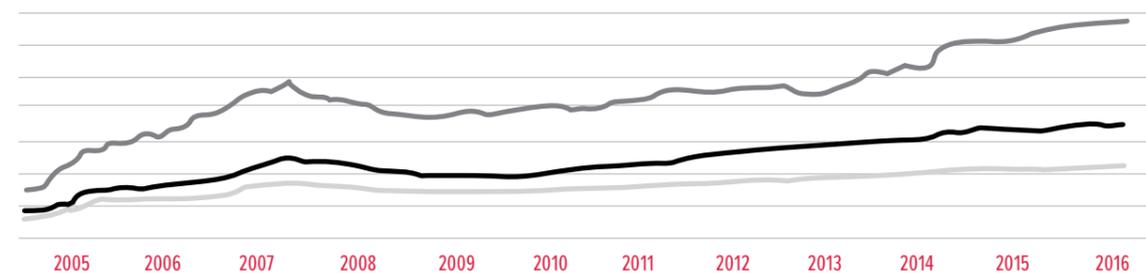
The increased availability of mortgages, stagnating prices and discounts provided by real estate developers had a positive impact upon activity of the customers in the market. According to SPb Realty, in 2016 housing sales in St. Petersburg and the Leningrad Region increased by 9.5%, to 4.14 million sqm. In particular, 2.66 million sqm was sold within the city limits, up 15.7% year-on-year. Mass market segment accounts for 93% of the total sales.

In 2016, prices for new housing in Saint-Petersburg continued to grow in nominal terms. In particular, the price of a square meter of mass market housing in the city increased by 2.9% to RUB 107.5 thousand, in business class segment - by 5.4% to RUB 174 thousand, in elite segment - by 2.7% to RUB 334 thousand.

HOUSING SALES IN ST. PETERSBURG AND LENINGRAD REGION, MILLION SQM



PRICES FOR NEW HOUSING IN ST. PETERSBURG, RUB THOUSAND/SQM



## MOSCOW

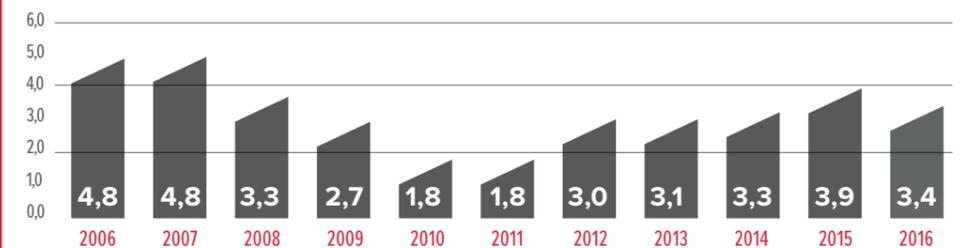
## AND MOSCOW REGION

**MOSCOW IS THE LARGEST CITY NOT ONLY IN RUSSIA BUT ALSO IN EUROPE. ACCORDING TO OFFICIAL STATISTICS, ITS POPULATION AMOUNTS TO 12.4 MILLION RESIDENTS**

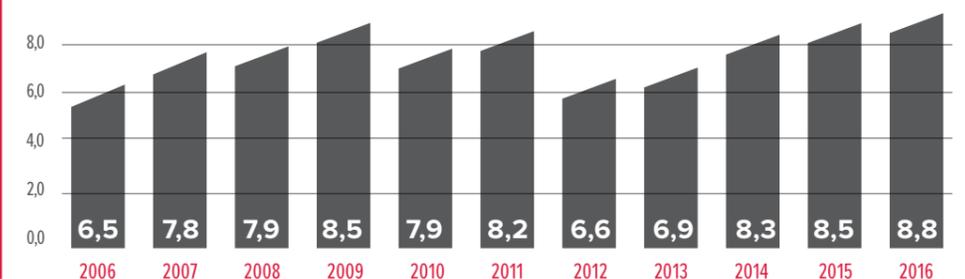
The population of the Moscow region amounts to 7.4 million people. Over the last decade, the number of Muscovites increased by 1.5 million, primarily due to migration. The city boasts the highest salary in the country: in January-November 2016 average monthly salary was RUB 83.8 thousand, up 10.4% year-on-year. The official unemployment rate is only 0.5%. Thus, Moscow is the largest financial, trade, industrial, and educational center attracting migrants from all parts of Russia and former CIS countries. The capital saw natural population growth in the recent years as well. According to official forecasts, the population of Moscow will grow up to 13.7 million by 2030. Such intensive growth will force the city to increase housing construction volumes. As of today housing penetration in the city is just 19.7 sqm per capita, which is significantly below the average European level.

Moscow and Moscow Region are the largest real estate markets in Russia. Over the last 10 years more than 10 million sqm of housing were commissioned in both regions annually. In 2016, 3.4 million sqm of housing were constructed in Moscow, down 14% year-on-year. The decrease was primarily due to the so called «new territories» recently attached to the city. As a result, construction volumes in «Old Moscow» and «New Moscow» are now comparable. 8.8 thousand sqm of housing were completed in the Moscow Region.

HOUSING COMPLETIONS IN MOSCOW, MILLION SQM



HOUSING COMPLETIONS IN MOSCOW REGION, MILLION SQM

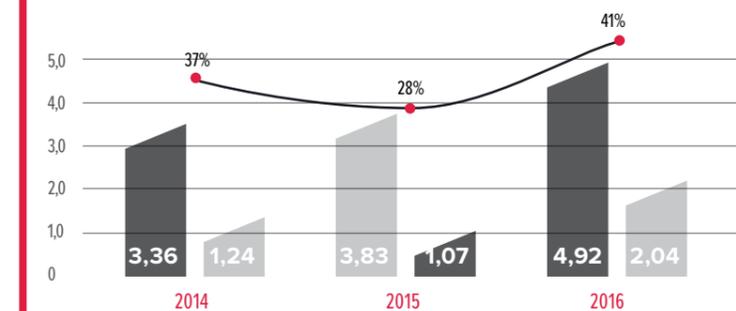


In 2016, Moscow authorities issued the permits for the construction of 10.2 million sqm of housing, which is almost twice the rate for 2015. At the end of 2016, the construction permits for 18 million square meters of housing were in force in Moscow. The government of the Moscow region issued the permits for 5.4 million sqm of housing in 2016 (and 5.8 million sqm in 2015).

amounted to 4.92 million sqm as of the end of the year. In fact, the demand also reached a record high level: 2.04 million sqm of housing were sold in 2016, which accounts for 41% of the supply. The absorption is much higher as compared to 2015 when 1.07 million sqm were sold as compared to the supply of 3.83 million sqm.

Thus, the current supply is the highest in history. According to Metrium Group, the total supply within the «Old Moscow»

### DEMAND AND SUPPLY IN THE PRIMARY MARKET OF MOSCOW IN 2014–2016



Источник – «Метриум Групп»

Supply, million sqm  
Demand, million sqm  
Absorption, %

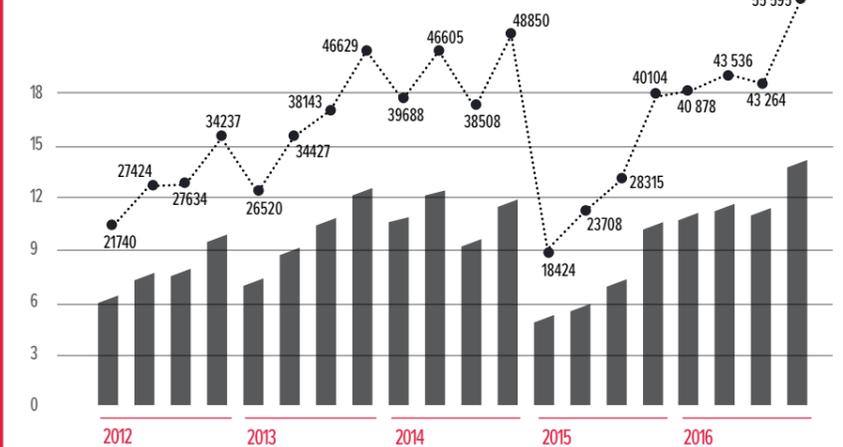
According to IRN, our ZILART was the most popular project among customers accounting for 6.5% of the total sales on the territory from the third ring road to MKAD.

The official statistics on co-investment contracts reflects the growing activity of customers. According to Rosreestr, in 2016 customers entered into 35,621 contracts, up 82% against 2015 and up 68% as compared to 2013 (before the crisis). The largest local real estate agencies claim the share of mortgage contracts was nearly 50% of the total number of transactions. According to Inkom, the share of mortgage sales in the mass market segment grew by 20% year-on-year and accounted for 72% of the total number of transactions completed by the company.

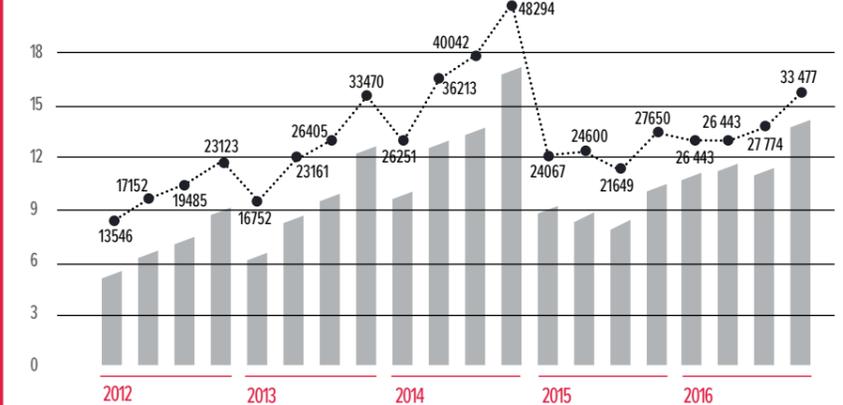
During the year 49,150 mortgage loans worth RUB 182.6 billion were issued in Moscow. As compared to 2015, the number of mortgages grew by 32%, and their value increased by 38% year-on-year. The average borrowing rate was 12.35% in 2016 and 11.6% for the loans issued in December.

In the Moscow region 43,153 mortgage loans worth RUB 114 billion were issued in 2016. As compared to 2015, the number of loans increased by 25% and their value – by 32%. The average borrowing rate was 12.25% for 2016 and 11.33% for the loans issued in December.

### MORTGAGE LENDING IN MOSCOW



### MORTGAGE LENDING IN MOSCOW REGION

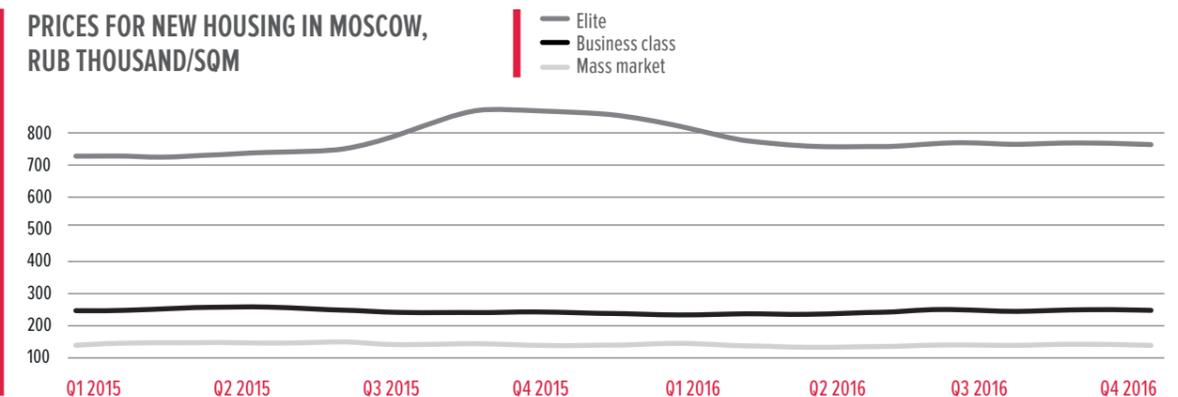


Number of loans in Moscow, thousand  
Number of loans in Moscow region, thousand  
Value of loans, RUB million

According to Metrium Group, during the year business class segment was the only segment in the primary market which saw an increase in prices. That was primarily due to the fact that many large-scale projects were launched to the market in 2015 at special discounted prices and homebuilders had to adjust the prices upward in 2016. As a result, the average price per sqm

in business class increased by 4.9% up to RUB 241.5 thousand. In mass market segment the average price per sqm decreased by 1% to RUB 147 thousand. Hi-end real estate lost 11% and the average price stood at RUB 680 thousand.

### PRICES FOR NEW HOUSING IN MOSCOW, RUB THOUSAND/SQM



## YEKATERINBURG

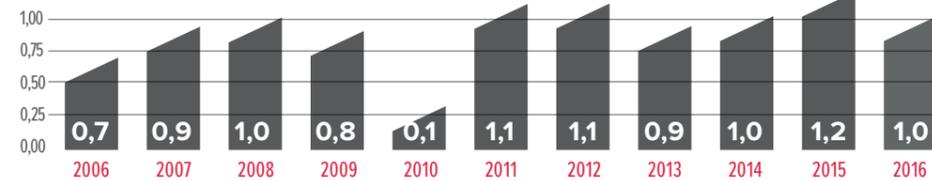
**YEKATERINBURG IS ONE OF THE LARGEST REAL ESTATE MARKETS IN THE COUNTRY. IN 2016, 1,029 THS SQM OF REAL ESTATE WERE COMPLETED IN THE CITY**



Yekaterinburg is the third largest city in Russia. Its population is 1.5 million. The number of residents increases both due to natural growth and migration. Yekaterinburg is a large industrial, transport, and educational center with minimum unemployment rate (0.8%) and high salaries (RUB 42.6 thousand in January to September 2016).

Yekaterinburg is also one of the largest real estate markets in the country. Over the last few years the volume of housing construction has been growing steadily in the city. The year of 2015 set an absolute record in terms of completions – almost 1.2 million sqm (up 15.5% year-on-year). In 2016, 39 companies commissioned 1,029 thousand sqm, down 14% against 2015.

### HOUSING COMPLETIONS IN YEKATERINBURG, THOUSAND SQM

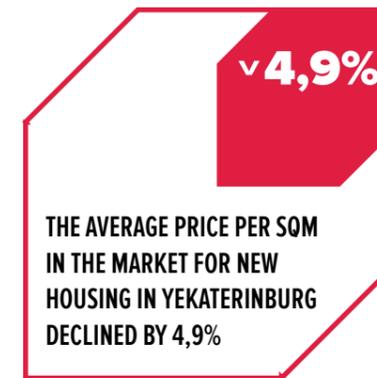
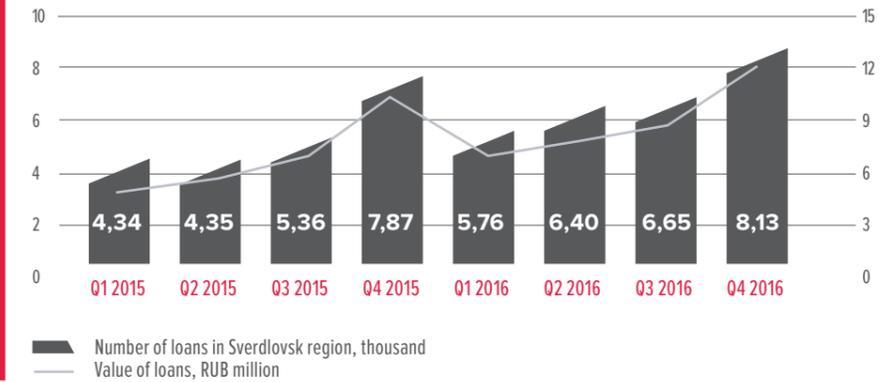


According to Urals Chamber of Real Estate, as of the end of 2016 the total area under construction was 2.3 million sqm in Yekaterinburg (down 3.5% against 2015). The volume of suspended construction was 320 thousand sqm (14% of the total area under construction). Homebuilders started to reduce new supply already in 2015 when 700 thousand sqm were launched to the market, 100% decrease against 2014. In 2016, new launches remained at the same level.

Mass market segment accounts for more than 90% of the total area under construction. This shift towards cheaper housing obviously became one of the main trends in the market taking into account the existing macro environment. Even within mass market segment real estate developers focus on smaller apartment.

Mortgage lending is one of the key drivers of demand in the primary market. According to Urals Chamber of Real Estate, the share of mortgage sales in the market is more than 50%, reaching 80% for particular projects. In 2016, 27,511 mortgage loans worth RUB 44.9 billion were granted in Sverdlovsk Region. As compared to 2015, the number of loans increased by 25.7%, their value – by 27.6%. A weighted average borrowing rate was 12.71%, down 0.82% against 2015.

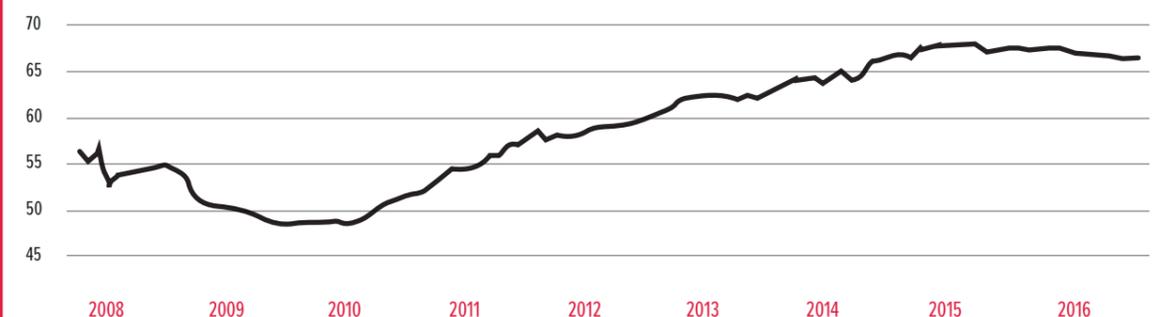
### MORTGAGE LENDING IN SVERDLOVSK REGION



Demand for new housing in Yekaterinburg was impacted by the whole range of negative factors, including economic instability, lack of growth in real disposable incomes and still high borrowing rates (as compared to the inflation level). In this context, the decrease of the rates in 2016 did not result in the increased number of customers in absolute terms but impacted the share of mortgage sales. According to Urals Chamber of Real Estate, housing sales in the primary market in 2016 remained at the level of 2015 and amounted to about 17 thousand transactions.

In 2016, prices in the market for new housing in Yekaterinburg did not demonstrate sustainable upward or downward movements. The year saw price increases for particular popular projects, whereas less successful projects or locations were subject to dumping. As a result, the average price per sqm declined by 4.9% year-on-year, to RUB 67.3 thousand.

### PRICES FOR NEW HOUSING IN YEKATERINBURG, RUB THOUSAND/SQM



# REVIEW OF OPERATING AND FINANCIAL RESULTS

- SALES REVENUE INCREASED BY 13%, TO RUB 98,072M
- EBITDA INCREASED BY 4%, TO RUB 19,298M
- EBITDA MARGIN WAS 20%
- PROFIT FOR THE YEAR WAS RUB 9,163M
- EARNINGS PER SHARE AMOUNTED TO RUB 90.72
- TOTAL DEBT WAS RUB 55,695M. NET DEBT WAS RUB 30,065M
- NET DEBT/EBITDA RATIO WAS 1.56

SALES REVENUE INCREASED BY 13%, TO

**98,072** RUB M

NET DEBT WAS

**30,065** RUB M

TOTAL DEBT WAS

**55,695** RUB M

PROFIT FOR THE YEAR WAS

**9,163** RUB M

EARNINGS PER SHARE AMOUNTED TO

**90.72** RUB

EBITDA INCREASED BY 4%, TO

**19,298** RUB M

NET DEBT/EBITDA RATIO WAS

**1.56**

EBITDA MARGIN WAS

**20** %

## KEY FINANCIALS

RUB m	2015	2016	Change, %
<b>Revenue</b>	<b>86 830</b>	<b>98 072</b>	<b>13%</b>
<b>EBITDA</b>	<b>18 632</b>	<b>19 298</b>	<b>4%</b>
EBITDA, %	21%	20%	-
Operating profit	13 763	14 031	2%
Operating profit, %	16%	14%	-
<b>Profit for the year</b>	<b>10 646</b>	<b>9 163</b>	<b>(14%)</b>
Cash flows (utilised by)/from operating activities	(8 331)	(6 218)	(25%)
Amortisation and depreciation	2 997	2 960	(1%)
Capitalised capital expenditure	3 152	3 222	2%
	<b>31.12.15</b>	<b>31.12.16</b>	<b>Change, %</b>
Total debt	33 018	55 695	69%
Net debt	12 584	30 065	139%
Net debt/ EBITDA	0,68	1,56	-

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS

RUB m	2015	2016	Change, %
<b>Revenue</b>	<b>86 830</b>	<b>98 072</b>	<b>13%</b>
Cost of sales	(60 733)	(69 327)	14%
<b>Gross profit</b>	<b>26 097</b>	<b>28 745</b>	<b>10%</b>
Distribution expenses	(5 189)	(6 251)	20%
Administrative expenses	(7 023)	(8 020)	14%
Other income and expenses	(122)	(443)	263%
<b>Operating profit</b>	<b>13 763</b>	<b>14 031</b>	<b>2%</b>
Finance income	2 634	2 022	(23%)
Finance costs	(2 434)	(3 455)	42%
<b>Profit before income tax</b>	<b>13 963</b>	<b>12 598</b>	<b>(10%)</b>
Income tax expense	(3 317)	(3 435)	4%
<b>Profit for the year</b>	<b>10 646</b>	<b>9 163</b>	<b>(14%)</b>
Foreign currency translation differences for foreign	143	(761)	-
<b>Total comprehensive income for the year</b>	<b>10 789</b>	<b>8 402</b>	<b>(22%)</b>
<b>Basic and diluted earnings per ordinary share (RUB)</b>	<b>104,60</b>	<b>90,72</b>	<b>(13%)</b>
EBITDA	18 632	19 298	4%
EBITDA, %	21%	20%	-

98,072

## REVENUE

Our sales revenue in 2016 was RUB 98,072m (+13%).

28,745

## GROSS PROFIT

In 2016, the gross profit amounted to RUB 28,745m (+10%).

DISTRIBUTION  
AND ADMINISTRATIVE EXPENSE

The distribution costs grew by 20%, up to RUB 6,251m.

The administrative costs increased by 14% to RUB 8,020m.

19,298

EBITDA  
AND OPERATING PROFIT

EBITDA increased by 4% to RUB 19,298m. EBITDA margin was 20%. Operating profit increased by 2%, to RUB 14,031m, and operating profit margin was 14%.

1,433

## NET FINANCE INCOME

Net finance expense amounted to RUB 1,433m.

3,435

## INCOME TAX EXPENSE

In 2016, income tax expense amounted to RUB 3,435m. The statutory income tax rate was 20% and the effective tax rate was -27%.

9,163

## PROFIT FOR THE YEAR

In the reported period we received profit of RUB 9,163m (-14%). Profit for the year was primarily affected by growing finance costs.

## CASH FLOWS AND LIQUIDITY

## CONSOLIDATED CASH FLOWS STATEMENT

RUB m	2015	2016
Profit for the period	10 646	9 163
Depreciation & amortisation	2 997	2 960
Net finance costs	(200)	1 433
Other, net	5 168	5 649
<b>Operating profit before changes in working capital and provisions</b>	<b>18 611</b>	<b>19 205</b>
Change in Inventories	(15 749)	(32 225)
Change in Trade and Other Receivables	(108)	5 368
Change in Trade and Other Payables	(3 485)	9 276
Increase/decrease in provisions	(770)	714
<b>Cash flows (utilised by)/from operations before income taxes and interest paid</b>	<b>(1 501)</b>	<b>2 338</b>
Income Taxes Paid	(3 668)	(3 937)
Interest Paid	(3 162)	(4 619)
<b>Cash flows utilised by operating activities</b>	<b>(8 331)</b>	<b>(6 218)</b>
Capital Expenditures	(3 305)	(2 871)
Disposals	5 235	171
Other	4 658	56
<b>Cash flows from/(utilised by) investing activities</b>	<b>6 588</b>	<b>(2 644)</b>
Debt issued (repaid)	4 786	22 573
Dividends paid	(8 036)	(8 037)
<b>Cash flows (utilised by)/from financing activities</b>	<b>(3 250)</b>	<b>14 536</b>
<b>Net change in cash</b>	<b>(4 993)</b>	<b>5 674</b>
<b>Cash at beginning of period</b>	<b>25 278</b>	<b>20 434</b>
Exchange rate fluctuations	149	(478)
<b>Cash at end of period</b>	<b>20 434</b>	<b>25 630</b>

• CASH FLOWS UTILISED BY OPERATIONS BEFORE INCOME TAXES AND INTEREST PAID WERE EQUAL TO RUB 2,338M.

• INTEREST PAYMENTS AMOUNTED TO RUB 4,619M.

• THE INCOME TAX EXPENSE PAID WAS RUB 3,937M.

• THE CASH FLOWS UTILISED BY INVESTING ACTIVITIES AMOUNTED TO RUB 2,644M. THE CASH FLOWS FROM FINANCING ACTIVITIES WAS RUB 14,536M.

AS OF DECEMBER 31, 2016,  
THE CASH BALANCE WAS

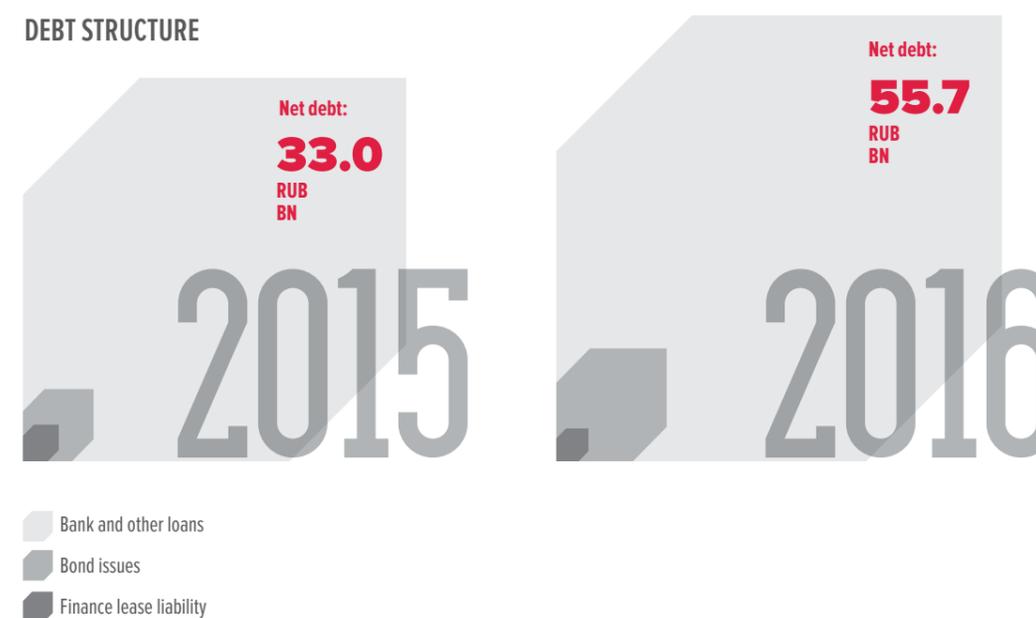
**25.6** RUB  
BN

## DEBT

As of December 31, 2016, the company's total debt increased by 69%, compared to December 31, 2015, to RUB 55,695m. The net debt amounted to RUB 30,065m. Net debt/ EBITDA ratio was 1.56. The debt financing was primarily used to attract funds for our large-scale real estate development projects and land bank expansion. An average borrowing rate decreased from 11.74% to 10.89%.

As of December 31, 2016, the major part of our debt (91%) was represented by bank and other loans. The ruble bond issues accounted for 9% and the finance lease liability for less than 1% of our debt.

## DEBT STRUCTURE



RUB m	31.12.2015	31.12.2016
Bank and other loans	31 710	50 590
Bond issues	1 154	5 000
Finance lease liability	154	105
Total debt	33 018	55 695
Less cash and cash equivalents	20 434	25 630
<b>Net debt</b>	<b>12 584</b>	<b>30 065</b>

## FINANCIAL RESULTS BY BUSINESS DIVISION

IN 2016, THE SALES REVENUE OF REAL ESTATE DEVELOPMENT AND CONSTRUCTION DIVISION INCREASED BY 12% TO RUB 76,573M AGAINST 2015. EBITDA INCREASED BY 4%, TO RUB 18,485M. EBITDA MARGIN WAS 24%.

### REAL ESTATE DEVELOPMENT

	2015	2016	Change, %
<b>Completed (m<sup>2</sup>)</b>	<b>754</b>	<b>788</b>	<b>4%</b>
Real Estate St. Petersburg	538	494	(8%)
Elite Real Estate	93	26	(72%)
Mass Market Real Estate	445	469	5%
Real Estate Moscow	90	198	121%
Real Estate Urals	127	96	(25%)
<b>New contract sales (m<sup>2</sup>)</b>	<b>611</b>	<b>681</b>	<b>11%</b>
Real Estate St. Petersburg	385	386	-
Elite Real Estate	37	43	14%
Mass Market Real Estate	348	344	(1%)
Real Estate Moscow	125	193	54%
Real Estate Urals	101	102	-
<b>Revenue (RUB m)</b>	<b>61 210</b>	<b>68 810</b>	<b>12%</b>
Real Estate St. Petersburg	48 107	42 412	(12%)
Real Estate Moscow	5 844	20 670	254%
Real Estate Urals	6 597	5 623	(15%)
<b>EBITDA (RUB m)</b>	<b>15 419</b>	<b>15 958</b>	<b>3%</b>
Real Estate St. Petersburg	13 987	14 488	4%
Real Estate Moscow	(68)	538	-
Real Estate Urals	1 416	1 090	(23%)
<b>EBITDA, %</b>	<b>25%</b>	<b>23%</b>	<b>-</b>
Real Estate St. Petersburg	29%	34%	-
Real Estate Moscow	-	3%	-
Real Estate Urals	21%	19%	-
<b>Operating profit (RUB m)</b>	<b>13 562</b>	<b>13 576</b>	<b>-</b>
Real Estate St. Petersburg	12 222	12 792	5%
Real Estate Moscow	(154)	(124)	-
Real Estate Urals	1 413	1 074	(24%)
<b>Operating profit, %</b>	<b>22%</b>	<b>20%</b>	<b>-</b>
Real Estate St. Petersburg	25%	30%	-
Real Estate Moscow	-	-	-
Real Estate Urals	21%	19%	-

In 2016, in all regions of our operations we entered into new contracts for the sale of 681 th m<sup>2</sup> (+11%). The total value of the contracts for the sale of real estate increased by 29% to RUB 70,6bn. In 2016, we completed 788 th m<sup>2</sup> of net sellable area (+4%). The recognitions for 2016 amounted to 779 th m<sup>2</sup> (+8%).

### IN 2016, THE SALES REVENUE GREW BY 12%, UP TO RUB 68,810M

In 2016, the sales revenue grew by 12%, up to RUB 68,810m and EBITDA increased by 3% to RUB 15,958m. EBITDA margin was 23%.

### REAL ESTATE IN ST. PETERSBURG

In 2016, in St. Petersburg, we entered into new contracts for the sale of 386 th m<sup>2</sup> of net sellable area. The total value of the contracts was RUB 36.6bn. In 2016, we completed 494 th m<sup>2</sup> of net sellable area (-8%). The recognitions for 2016 amounted to 493 th m<sup>2</sup> (-5%).

In the elite segment, we entered into new contracts for the sale of 43 th m<sup>2</sup> of net sellable area (+14%). The total value of the contracts was RUB 7.8bn. In 2016, we completed 26 th m<sup>2</sup> of net sellable area. The recognitions for 2016 amounted to 21 th m<sup>2</sup> (-77%).

In the mass market segment, we entered into new contracts for the sale of 344 th m<sup>2</sup>. The total value of the contracts was RUB 28.8bn (+2%). In 2016, we completed 469 th m<sup>2</sup> of net sellable area (+5%). The recognitions for 2016 amounted to 473 th m<sup>2</sup> (+10%).

The sales revenue decreased by 12% to RUB 42,412m and EBITDA increased by 4% to RUB 14,488m. EBITDA margin was 34%. Within the reported period we recognised revenue from such projects as Novaya Okta, Sophia, Kalina-Park, Yuzhnaya Akvatoria, Kvartet, Smolny Park.

### REAL ESTATE IN MOSCOW

In 2016, we entered into new contracts for the sale of 193 th m<sup>2</sup> of net sellable area (+54%). The total value of the signed contracts was RUB 28.1bn (+124%). In 2016, we completed 198 th m<sup>2</sup> (+121%) of net sellable area. The recognitions for 2016 amounted to 189 th m<sup>2</sup> (+97%).

The sales revenue was RUB 20,670m (+254%). EBITDA amounted to RUB 538m. Within the reported period we recognised revenue from such projects as Novoe Domodedovo, Donskoy Olymp and Nakhabino Yasnoe.

### REAL ESTATE IN YEKATERINBURG

In 2016, we entered into new contracts for the sale of 102 th m<sup>2</sup> of net sellable area. The total value of the contracts was RUB 5.9bn. In 2016, we completed 96 th m<sup>2</sup> of net sellable area. The recognitions for 2016 amounted to 96 th m<sup>2</sup> (-12%).

The sales revenue decreased by 15% to RUB 5,623m and EBITDA amounted to RUB 1,090m. EBITDA margin was -19%.



## CONSTRUCTION

	2015	2016	Change, %
<b>Transferred to customers, th m2</b>	<b>881</b>	<b>925</b>	<b>5%</b>
St. Petersburg	562	560	-
Moscow*	179	211	18%
Yekaterinburg*	140	154	10%
<b>Revenue (RUB m)</b>	<b>32 928</b>	<b>28 810</b>	<b>(13%)</b>
St. Petersburg	21 441	17 554	(18%)
incl. revenue from inter-group sales	19 477	17 080	(12%)
Moscow	7 134	7 028	(1%)
incl. revenue from inter-group sales	4 778	2 869	(40%)
Yekaterinburg	4 397	4 285	(3%)
incl. revenue from inter-group sales	3 716	3 193	(14%)
<b>EBITDA (RUB m)</b>	<b>2 758</b>	<b>1 495</b>	<b>(46%)</b>
St. Petersburg	2 489	1 076	(57%)
Moscow	(214)	(91)	-
Yekaterinburg	487	509	5%
<b>EBITDA, %</b>	<b>8%</b>	<b>5%</b>	<b>-</b>
St. Petersburg	12%	6%	-
Moscow	-	-	-
Yekaterinburg	11%	12%	-
<b>Operating profit (RUB m)</b>	<b>1 987</b>	<b>785</b>	<b>(60%)</b>
St. Petersburg	1 988	628	(68%)
Moscow	(308)	(182)	-
Yekaterinburg	311	338	9%
<b>Operating profit, %</b>	<b>6%</b>	<b>3%</b>	<b>-</b>
St. Petersburg	9%	4%	-
Moscow	-	-	-
Yekaterinburg	7%	8%	-

\* Sales figures in Yekaterinburg and Moscow include both transfer of completed panel housing to the customers and sales of reinforced concrete for panel construction.

**IN 2016, OUR SUBSIDIARIES IN ST. PETERSBURG, MOSCOW AND YEKATERINBURG TRANSFERRED TO THE CUSTOMERS 925 TH M<sup>2</sup> OF PREFAB BUILDINGS (+5%)**

## CONSTRUCTION

In 2016, our subsidiaries in St. Petersburg, Moscow and Yekaterinburg transferred to the customers 925 th m<sup>2</sup> of prefab buildings (+5%).

The sales revenue of our Construction division decreased by 13% to RUB 28,810m. EBITDA decreased by 46% to RUB 1,495m. EBITDA margin was 5%.

In St. Petersburg the revenue of our prefab factory decreased by 18% to RUB 17,554m. EBITDA decreased by 57% to RUB 1,076m. EBITDA margin was 6%. In the Moscow region our revenue was RUB 7,028m and EBITDA loss was RUB 91m. In Yekaterinburg our

revenue decreased by 3% to RUB 4,285m. EBITDA increased by 5%, up to RUB 509m. EBITDA margin was 12%.

## PROJECT MANAGEMENT

In 2016, the sales revenue was RUB 918m and EBITDA loss was RUB 18m.

## TOWER CRANES

The sales revenue was RUB 1,310m (-8%) and EBITDA was RUB 306m (-28%). EBITDA margin was 23%.



## BUILDING MATERIALS

Sales volume	2015	2016	Change, %
Crushed granite, th m <sup>3</sup>	5 374	6 312	17%
Sand, th m <sup>3</sup>	8 144	8 742	7%
Ready-mix concrete, th m <sup>3</sup>	1 027	879	(14%)
Reinforced concrete, th m <sup>3</sup>	283	256	(10%)
Bricks, million units	348	317	(9%)
Aerated concrete, th m <sup>3</sup>	1 304	1 385	6%
<b>Revenue (RUB m)</b>	<b>16 242</b>	<b>17 177</b>	<b>6%</b>
Crushed granite	2 612	3 208	23%
Sand	1 943	2 266	17%
Ready-mix concrete	3 086	2 921	(5%)
Reinforced concrete	3 135	3 343	7%
Bricks	3 435	3 167	(8%)
Aerated concrete	2 904	3 099	7%
<b>EBITDA (RUB m)</b>	<b>3 524</b>	<b>4 328</b>	<b>23%</b>
Crushed granite	487	817	68%
Sand	498	768	54%
Ready-mix concrete	(27)	102	-
Reinforced concrete	569	730	28%
Bricks	1 224	1 061	(13%)
Aerated concrete	781	851	9%
<b>EBITDA, %</b>	<b>22%</b>	<b>25%</b>	<b>-</b>
Crushed granite	19%	25%	-
Sand	26%	34%	-
Ready-mix concrete	-	3%	-
Reinforced concrete	18%	22%	-
Bricks	36%	34%	-
Aerated concrete	27%	27%	-
<b>Operating profit (RUB m)</b>	<b>1 676</b>	<b>2 569</b>	<b>53%</b>
Crushed granite	237	569	140%
Sand	350	637	82%
Ready-mix concrete	(192)	(51)	-
Reinforced concrete	275	451	64%
Bricks	371	260	(30%)
Aerated concrete	643	704	9%
<b>Operating profit, %</b>	<b>10%</b>	<b>15%</b>	<b>-</b>
Crushed granite	9%	18%	-
Sand	18%	28%	-
Ready-mix concrete	-	-	-
Reinforced concrete	9%	13%	-
Bricks	11%	8%	-
Aerated concrete	22%	23%	-

**IN 2016, THE SALES REVENUE OF BUILDING MATERIALS DIVISION INCREASED BY 6% TO RUB 17,177M. EBITDA INCREASED BY 23% TO RUB 4,328M. EBITDA MARGIN WAS 25%.**

## CRUSHED GRANITE

In 2016, our crushed granite sales were 6.3m m<sup>3</sup> (+17%). The sales revenue increased by 23% to RUB 3,208m and EBITDA increased by 68% to RUB 817m. EBITDA margin was 25%.

## SAND

Sand sales in 2016 were 8.7m m<sup>3</sup> (+7%). The sales revenue increased by 17% to RUB 2,266m and EBITDA increased by 54% to RUB 768m. EBITDA margin increased to 34%.

## READY-MIX CONCRETE

In 2016, ready-mix concrete sales were 879 th m<sup>3</sup> (-14%). The sales revenue decreased by 5% to RUB 2,921m and EBITDA was RUB 102m. EBITDA margin was 3%.

## REINFORCED CONCRETE

In 2016, we sold 256 th m<sup>3</sup> of reinforced concrete items (-10%). The sales revenue increased by 7% to RUB 3,343m and EBITDA increased by 28% to RUB 730m. EBITDA margin was 22%.

## BRICKS

In 2016, our bricks sales amounted to 317 million units (-9%). The sales revenue decreased by 8% to RUB 3,167m and EBITDA decreased by 13% to RUB 1,061m. EBITDA margin was 34%.

## AERATED CONCRETE

Aerated concrete sales amounted to 1.4m m<sup>3</sup> in 2016 (+6%). The sales revenue increased by 7% to RUB 3,099m and EBITDA increased by 9% to RUB 851m. EBITDA margin was 27%.



# REAL ESTATE PORTFOLIO

# 8767<sup>TH</sup> SQM

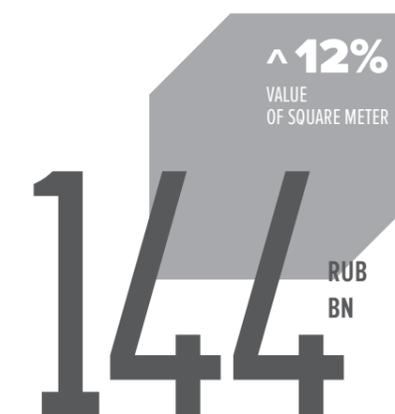
REAL ESTATE DEVELOPMENT PROJECTS OF LSR GROUP ARE LOCATED IN ST. PETERSBURG, THE LENINGRAD REGION, MOSCOW, THE MOSCOW REGION AND YEKATERINBURG

AS OF THE END OF 2016, THE NET SELLABLE AREA OF OUR PROJECTS WAS EQUAL TO 8,767 TH SQM.

The real estate portfolio of LSR Group includes properties/projects in the residential elite class, business class and mass market segments, as well as commercial property.

## VALUATION OF REAL ESTATE PORTFOLIO

As of December 31, 2016, the market value of our real estate portfolio was RUB 143,764 m. Thus, the assessed value of square meter has increased by 12% YoY. The valuation of our real estate portfolio was undertaken by Knight Frank as an independent external appraiser.



## BREAKDOWN OF REAL ESTATE PORTFOLIO BY SEGMENT

Segment of property	Net sellable / leasable area, th sqm	% of total	Market Value, RUB m	% of total
Mass-market	4 520	51,6	55 378	38,5
Elite	283	3,2	20 938	14,6
Business class	1 579	18	45 618	31,7
Offices	40	0,5	7 953	5,5
Operating offices *	26	0,3	4 218	2,9
Held for future development	2 319	26,5	9 658	6,7
<b>TOTAL</b>	<b>8 767</b>	<b>100</b>	<b>143 764</b>	<b>100</b>

\* Including operating offices with a total net lettable area of 26 th sqm, utilized by LSR Group's subsidiaries.

Our real estate portfolio is well-balanced across various property segments thus making it possible to offer property targeting distinct consumer groups.

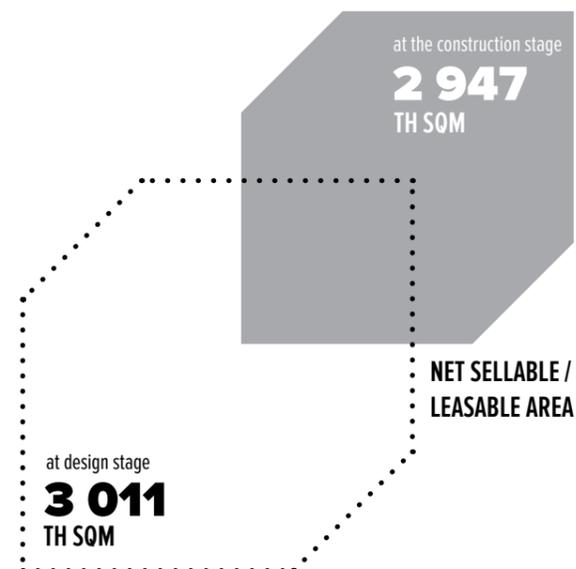
In terms of net sellable area, the major part of the portfolio (incl. land plots held for future development) is represented by mass market residential real estate which is always characterized by higher demand.

The portfolio also comprises residential elite (or high-end) and business class projects, as well as commercial property. These segments account for a smaller part of the portfolio in terms of sellable area however they account for a more substantial part of its market value due to higher prices per square meter as compared to mass market developments.

## BREAKDOWN OF PROPERTY PORTFOLIO BY STAGE OF DEVELOPMENT

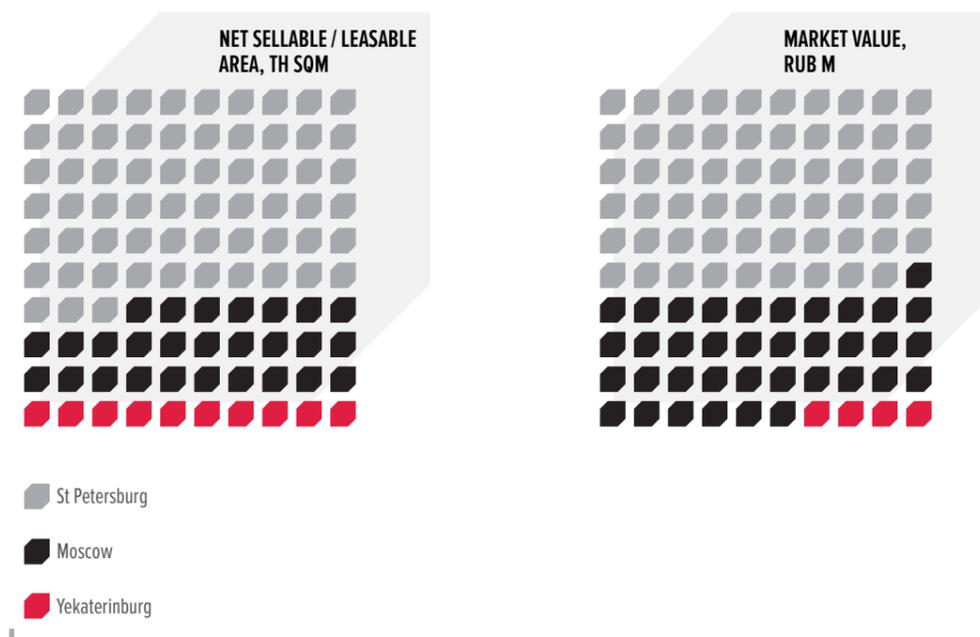
At December 31, 2016 our real estate portfolio includes 2,947 th sqm of net sellable area at the construction stage and 3,011 th sqm at design stage.

We also have 44 th sqm of the completed properties and operating offices with a total net lettable area of 26 th sqm housing LSR Group's subsidiaries. 2,740 th sqm of net sellable area are at the stage of concept development.



## BREAKDOWN OF PROPERTY PORTFOLIO BY REGION

Most of our properties – approximately 64% of the portfolio by area and 59% by value – are located in our home market in St. Petersburg. The share of Moscow and the Moscow region in our portfolio stands at almost 26% in terms of net sellable area and more than 36% in terms of market value.



Stage of development	Net sellable / leasable area, th sqm	% of total	Market Value, RUB m	% of total
Concept Development	2 740	31,3	17 267	12,0
Designing	3 011	34,3	23 550	16,4
Construction	2 947	33,6	85 425	59,4
Completed	44	0,5	13 303	9,3
Operating offices*	26	0,3	4 218	2,9
<b>TOTAL</b>	<b>8 767</b>	<b>100</b>	<b>143 764</b>	<b>100</b>

Region	Net sellable / leasable area, th sqm	% of total	Market Value, RUB m	% of total
St Petersburg*	5 618	64,1	85 151	59,2
Moscow*	2 266	25,8	52 400	36,4
Yekaterinburg	883	10,1	6 213	4,3
<b>TOTAL</b>	<b>8 767</b>	<b>100</b>	<b>143 764</b>	<b>100</b>

\* Including operating offices with a total net lettable area of 26 th sqm, utilized by LSR Group's subsidiaries.

\* Including operating offices with a total net lettable area of 26 th sqm, utilized by LSR Group's subsidiaries.

# PROJECTS PORTFOLIO

## SAINT PETERSBURG

ELITE REAL ESTATE



SMOLNY PARK

17,0<sup>TH</sup>  
M<sup>2</sup>



RADISCHEVA 39

0,8<sup>TH</sup>  
M<sup>2</sup>



PETROVSKY  
OSTROV  
BAVARIA

121,9<sup>TH</sup>  
M<sup>2</sup>



VERONA

4,4<sup>TH</sup>  
M<sup>2</sup>



OSOBNYAK  
MARTYNOVA EMB

1,2<sup>TH</sup>  
M<sup>2</sup>



RUSSKIY DOM

20,4<sup>TH</sup>  
M<sup>2</sup>



DOM NA  
DVORYANSKOY

0,4<sup>TH</sup>  
M<sup>2</sup>



PETROVSKY OSTROV  
REB FLOTA

116,8<sup>TH</sup>  
M<sup>2</sup>

## SAINT PETERSBURG

OFFICE BUILDINGS



KAZANSKAYA, 36

4,9<sup>TH</sup>  
M<sup>2</sup>



ZLOTAYA  
KAZANSKAYA

2,7<sup>TH</sup>  
M<sup>2</sup>



KAZANSKAYA 60

2,0<sup>TH</sup>  
M<sup>2</sup>



PARADNIY KVARTAL  
BC11

3,7<sup>TH</sup>  
M<sup>2</sup>

BUSINESS CLASS RESIDENTIAL



EUROPA CITY

23,8<sup>TH</sup>  
M<sup>2</sup>



TRI VETRA

27,9<sup>TH</sup>  
M<sup>2</sup>



NEO

5,8<sup>TH</sup>  
M<sup>2</sup>



BOHEMIA

14,4<sup>TH</sup>  
M<sup>2</sup>

**SAINT PETERSBURG**

MASS MARKET RESIDENTIAL



**KALINA PARK**

**125,4** TH  
M<sup>2</sup>



**YUZHNAJA  
AQUATORIJA**

**101,5** TH  
M<sup>2</sup>



**OKTYABRSKAYA NABEREJNAYA**

**782,6** TH  
M<sup>2</sup>



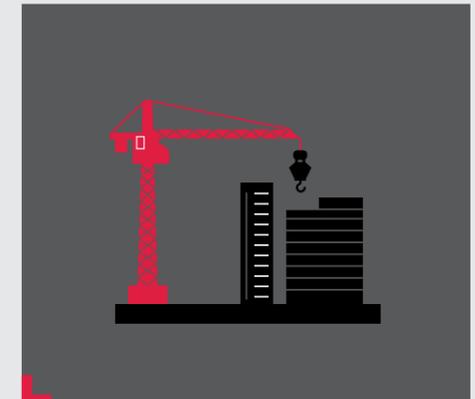
**ZAPOVEDNAYA**

**89,0** TH  
M<sup>2</sup>



**RUCH'I/  
RUCH'I-7**

**211,4** TH  
M<sup>2</sup>



**KOSMONAVTOV/  
DUNAISKIY**

**46,7** TH  
M<sup>2</sup>



**AEROPORT RZHEVKA**

**1029,2** TH  
M<sup>2</sup>

## SAINT PETERSBURG

MASS MARKET RESIDENTIAL



SHUVALOVSKIY

238,7<sup>TH</sup>  
M<sup>2</sup>



SOPHIA

24,5<sup>TH</sup>  
M<sup>2</sup>



NOVAYA OKHTA

252,6<sup>TH</sup>  
M<sup>2</sup>

FUTURE DEVELOPMENT



CVETNOY GOROD

2319,1<sup>TH</sup>  
M<sup>2</sup>

COMMERCIAL PROPERTY



PARADNIY KVARTAL

12,1<sup>TH</sup>  
M<sup>2</sup>



NEVSKIY, 1

8,5<sup>TH</sup>  
M<sup>2</sup>



NEVSKIY, 68

8,4<sup>TH</sup>  
M<sup>2</sup>

**MOSCOW**

BUSINESS CLASS RESIDENTIAL



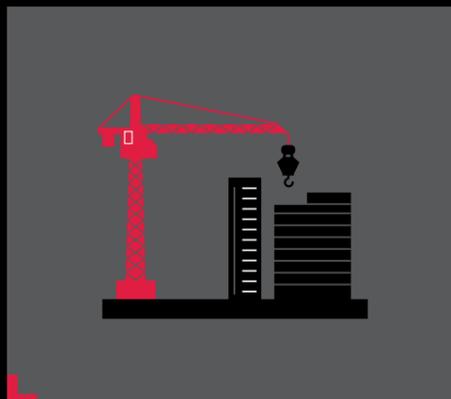
ZIL YUG

**510,7** TH M<sup>2</sup>



DONSKOY OLIMP

**18,1** TH M<sup>2</sup>



LENINGRADSKOE  
SHOSSE

**56,4** TH M<sup>2</sup>



GRUNVALD

**1,5** TH M<sup>2</sup>



**ЗИЛАРТ**  
ЖИЛОЙ КОМПЛЕКС АРТ-КЛАССА

ZILART is a perfect place for those who are looking for comfort, business opportunities, inspiration and entertainment.

**920,7** TH M<sup>2</sup>



**MOSCOW**

MASS MARKET RESIDENTIAL



LUCHI

**306,8** TH M<sup>2</sup>



NOVOE  
DOMODEDOVO

**3,3** TH M<sup>2</sup>



NAKHABINO  
YASNOYE

**66,1** TH M<sup>2</sup>



PODOLSK-ERINO

**358,8** TH M<sup>2</sup>

COMMERCIAL PROPERTY



NOVIY BALCHUG

**11,2** TH M<sup>2</sup>



AVTOZAVODSKAYA

**7,8** TH M<sup>2</sup>



DAVYDKOVSKAYA,  
16

**1,8** TH M<sup>2</sup>



TVERSKOY  
BULVAR, 16

**2,7** TH M<sup>2</sup>

**YEKATERINBURG**



**KHRUSTALNIYE KLYUCHI**

**179,7** TH  
M<sup>2</sup>



**RASTOCHNAYA**

**11,7** TH  
M<sup>2</sup>



**SHEFSKAYA, 11**

**6,9** TH  
M<sup>2</sup>



**FLAGMAN**

**44,8** TH  
M<sup>2</sup>



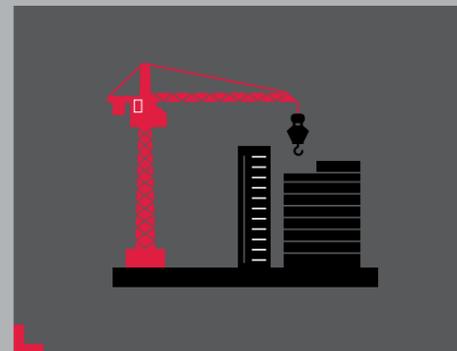
**MICHURINSKIY**

**149,4** TH  
M<sup>2</sup>



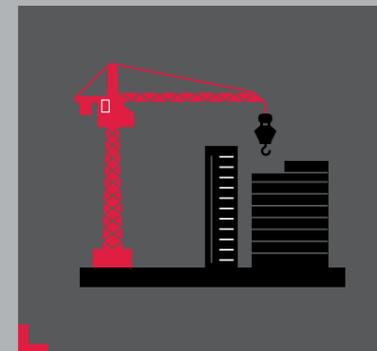
**RASSVETNIY**

**23,0** TH  
M<sup>2</sup>



**VIZ**

**150,0** TH  
M<sup>2</sup>



**BLUKHERA**

**105,8** TH  
M<sup>2</sup>



**AKADEMICHESKIY**

**212,0** TH  
M<sup>2</sup>

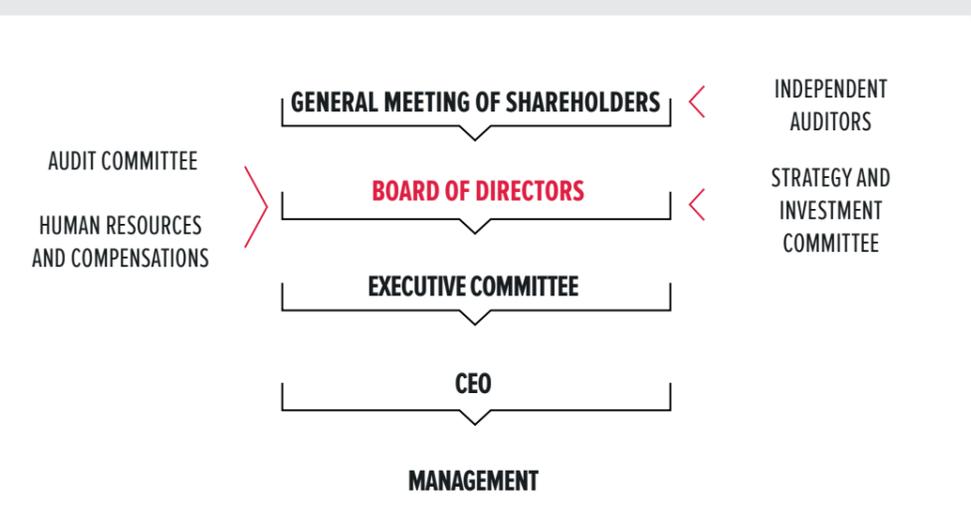
# CORPORATE GOVERNANCE

**IN OUR CORPORATE GOVERNANCE, WE COMPLY WITH RUSSIAN LEGISLATION ON CORPORATE GOVERNANCE, RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE, AS WELL AS INTERNATIONAL REQUIREMENTS ON PUBLIC COMPANIES LISTED ON LONDON STOCK EXCHANGE.**

## CORPORATE GOVERNANCE STRUCTURE

The corporate governance system of LSR Group consists of several management bodies including:

- General Meeting of Shareholders;
- Board of Directors;
- Executive Committee;
- CEO.



This report presents the composition of the management bodies of the Company as of 12/31/2016

## GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme corporate body of PJSC LSR Group. The General Meeting of Shareholders is convened by the Board of Directors at least once a year. One General Meeting of Shareholders was held in 2016.

## BOARD OF DIRECTORS

The Board of Directors is responsible for general management of the company, defines the company's development strategy and exercises control of its financial and business operations. The Board of Directors acts in compliance with the company's Charter and Regulations on the Board of Directors and is authorized to approve decisions related to all aspects of the company's business, save for the matters referred to the competence of the General Meeting of Shareholders by law.

Members of the Board of Directors shall be elected at the General Meeting of Shareholders. When members of the Board are elected by the extraordinary General Meeting of Shareholders their authority remains valid until the next annual General Meeting of Shareholders. Any shareholder of LSR Group holding at least 2% of the company's voting shares may nominate a candidate for the Board of Directors. Decisions of the Board of Directors are adopted by a simple majority unless otherwise provided by law, the company's Charter and Regulations on the Board of Directors. Each member of the Board of Directors has one vote. The Chairman of the Board of Directors convenes meetings of the Board of Directors in accordance with a previously agreed timetable.

Extraordinary meetings of the Board of Directors may be convened by the Chairman of the Board of Directors at his/her initiative, as well as upon the request of any member of the Board of Directors, the Executive Committee, Chief Executive Officer, the Internal Audit Commission or the auditors of LSR Group, Committees of the Board of Directors, and also any shareholder with at least 10% of the company's voting shares.

## EXECUTIVE COMMITTEE

The Executive Committee makes decisions on the most important issues related to the company's current business activities, implements the company's financial and business policy and advises on the company's strategy.

The Executive Committee acts in compliance with the company's Charter and Regulations on the Executive Committee, and is authorized to approve operating decisions related to business activities of LSR Group save for the matters referred to the competence of the General Meeting of Shareholders and the Board of Directors by law. The Board of Directors determines the number of members, election procedures and early termination of powers of the Executive Committee's members.

Decisions are taken by simple majority of votes. Each member has one vote. The Chairman of the Executive Committee appoints meetings of the Executive Committee as and when required, but at least once a month. Meetings of the Executive Committee may be convened at the initiative of the Chairman of the Executive Committee or one of the members of the Executive Committee, as well as upon request of the Board of Directors, the Internal Audit Commission and the auditor.

Activities of the Executive Committee are headed by the Chief Executive Officer, who is the Chairman of the Executive Committee by virtue of his position.

## CEO

In accordance with the Charter of LSR Group, the Chief Executive Officer exercises the powers of sole executive body. The Chief Executive Officer carries out day-to-day management of the company except for the matters referred to the competence of the General Meeting of Shareholders, Board of Directors and the Executive Committee.

Andrey Molchanov is the CEO of PJSC LSR Group. On December 23, 2016, his share in the Company changed from 60.62% to 60.23% based on securities contract.

## COMPOSITION OF THE BOARD OF DIRECTORS

	Position in the Board of Directors	Independent	Audit Committee	Human Resources and Compensations Committee	Strategy and Investment Committee
<b>Aleksandr Vakhmistrov</b>	Chairman of the Board of Directors	No			
<b>Dmitry Gontcharov</b>	Member of the Board of Directors	No			Member of the Committee
<b>Vasily Kostritsa</b>	Member of the Board of Directors	No			Member of the Committee
<b>Alexey Makhnev</b>	Member of the Board of Directors	Yes	Chairman of the Committee	Member of the Committee	Member of the Committee
<b>Andrey Molchanov</b>	Member of the Board of Directors	No			Chairman of the Committee
<b>Vitaliy Podolsky</b>	Member of the Board of Directors	Yes	Member of the Committee	Chairman of the Committee	Member of the Committee
<b>Alexander Prisyazhnyuk</b>	Member of the Board of Directors	Yes	Member of the Committee	Member of the Committee	Member of the Committee
<b>Olga Sheykina</b>	Member of the Board of Directors	No			
<b>Evgeniy Yatsyshin</b>	Member of the Board of Directors	No			

The following members of the Board were elected by the annual Meeting of Shareholders on April 05, 2016

## BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS



**ALEKSANDR VAKHMISTROV**  
Chairman of the Board of Directors

Member of the Board of Directors since June 2014.

Born in 1954. Graduated from Obratsov Leningrad Institute of Railway Transport Engineers in 1981 with a degree in industrial and civil construction.

In 2000, graduated from Saint Petersburg University of the Ministry of the Internal Affairs of Russia with a degree in law. Ph.D in economics, Professor, Saint Petersburg State University of Architecture and Civil Engineering and Saint Petersburg State Polytechnic University. First Vice President, member of the Board of the National Construction Union (NOSTROY) Honored Builder of Russia. Merited Builder of the Russian Federation. Received two official commendations by the President of the Russian Federation and a science and engineering award from the Government of the Russian Federation. Bearer of Fourth Class, Order for Merit to the Fatherland; awarded the Order of Friendship, Order of Honor and Order of Alexander Nevsky. From 1975 through 1994, he worked in different enterprises in the construction industry, holding positions from that of a specialist to CEO. Occupied the posts of Chief of Construction Office No. 339 at Glavzapstroy construction association in Leningrad, Director of Operations at Lentek, a Soviet-Finnish engineering contractor joint venture, CEO at Filko, a Soviet-Finnish construction joint venture.

In 1994, he was invited to the Committee for Construction of St. Petersburg to administer interaction between the city's authorities and private investors. At the same time he was appointed CEO of the state institution Board of Investments of St. Petersburg Administration Construction Department.

From 1996 through 2000, CEO, Center for Bank Credit Management.

From 2000 through 2003, Chairman, Construction Committee of Saint Petersburg, Vice-Governor of Saint Petersburg. From 2003 through 2009, member of the Government of Saint Petersburg, Vice-Governor of Saint Petersburg in charge of construction and reconstruction of real estate, road building, architecture, urban planning and municipal land allotment policies for capital construction projects.

From 2009 through June 2010, Vice-Governor of Saint Petersburg and Head of Administrative Office of the Governor of Saint Petersburg.

From 2010 through 2013, CEO, LLC LSR-Stroy (LSR Group enterprise).

From 2010 through 2015, CEO and Chairman of the Executive Committee of PJSC LSR Group. During the same period, he was CEO at LLC LSR. From 2015 to the present day, First Deputy CEO of PJSC LSR Group.

Since July 2015, he has been elected as the President of the «Association of Builders of Saint Petersburg». From 2016 to the present day, CEO at LLC Oblastnye Proekty.

On 4/13/2016, his shareholding in the Company changed from 0.0116% to 0.0194% based on securities contract within the scope of long-term incentive program for management.

**VASILY KOSTRITSA**

Member of the Board of Directors

Member of the Board of Directors since April 2016.

Born in 1964.

In 1986, he graduated from Leningrad Institute of Marine Transport, a degree in Economics and Management of Marine Transport. PhD in Economics, honored Builder of Russia.

Since 1992, he held various positions at North-West River Shipping consistently occupying the positions of Control Engineer, Chief Dispatcher, Deputy Head of Cargo and Commercial Work Service. From 1997, he was CEO of LLC StroyGranit SPb. In 1999, he was appointed CEO of LLC Baltnerud. In 1997, he was elected as a member of the Board of Directors of OJSC Granit-Kuznechnoye, then, in 2002, was appointed CEO, in 2005, he obtained a position of Managing Director. Since 2011, he was Managing Director of LSR Aggregates & Ready-mix Concrete – Northwest. In July 2013, he was appointed as Deputy CEO of LLC LSR, Managing Director of LSR. Aggregates & Ready-mix Concrete – Northwest. From January 2016, Deputy CEO for Constructional Materials of LSR Group.

He was awarded the Honorary Certificate of the Ministry of Regional Development of the Russian Federation and the Certificates of Merit of the Governor and Legislative Assembly of Leningrad Region. Also, Mr. Kostritsa was awarded the Badge of Merit for the Priozersky District. Honored citizen of Kuznechnoye, Priozersky District of Leningrad region. Mr. Kostritsa was awarded the Medal of Saint Seraphim of Sarov, 2nd degree and badge of honor of the Order of Honor and Glory of the Moscow Patriarchate. Member of the 4th and 5th Legislative Assembly of Leningrad Region. Deputy Chairman of the Permanent Commission for Natural Resources and Environmental Protection, member of the Permanent Commission for Construction, Transport, Communication and Road Facilities. He was awarded the badge Contribution into Leningrad Region Development.

On 4/12/2016, his shareholding in the Company changed from 0.211% to 0.226% based on securities contract within the scope of long-term incentive program for management.

**DMITRY GONTCHAROV**

Chairman of the Board of Directors

Member of the Board of Directors since June 2007.

Born in 1970.

Graduated from the Faculty of Economics of Ludwig-Maximilians-Universität (Munich) in 1996.

From 1997 through 2003, worked as Commercial Director, Department of CIS and Eastern Europe Sales, Information and Communication Networks Division of Siemens AG. From 1996 through 1997, worked in the field of audit and tax consulting at BBMS Treuhand GmbH. From 2009 through 2010, member of the Management Board, Aeroc International AS, Estonia.

From 2003 to the present time, Managing Director, LSR Europe GmbH (Munich). Since April 2016, Deputy Chairman of the Board of Directors.

On 4/13/2016, his shareholding in the Company changed from 0.0070% to 0.0116% based on securities contract within the scope of long-term incentive program for management.

**ALEKSEY MAKHNEV**

Member of the Board of Directors

Member of the Board of Directors since April 2015.

Born in 1976.

In 1998, he graduated from Saint Petersburg State University of Economics. Ph.D. in Economics.

From 2000 through 2009, he worked in large companies of the banking industry, starting from a senior manager to CEO. From 2009 through 2013, Managing Director, Head of Directorate of Consumer Sector and Retail of Global Investment Banking Department of CJSC VTB Capital.

2009 - till present: Member of the Board of Directors of Magnit PJSC. From 2013 to the present day, Head of Department of consumer sector, retail and real estate, corporate and investment department of JSC VTB Capital.

During the reporting period, he held no shares in the Company.

**ANDREY MOLCHANOV**

Member of the Board of Directors

Member of the Board of Directors since April 2013.

Born in 1971.

In 1993, he graduated from the Department of Economics of Saint Petersburg State University and from the Russian Academy of Public Administration (with a degree in State and Municipal Administration) in 1998. Ph.D in Economics.

Since May 2015, Chief Executive Officer and Chairman of the Executive Committee of PJSC LSR Group. Founded OJSC LSR Group in 1993 and chaired it until 2007. In 2007, he was appointed as the Assistant Minister of Healthcare and Social Development of the Russian Federation. In 2008, he was elected into the Federation Council of the Federal Assembly of the Russian Federation representing Leningrad Region. From April 2013 through April 2015, Chairman of the Board of Directors of LSR Group. Since 2015, Member of the Board of Directors of LLC RAZVITIE. Member of the Civic Chamber of the Russian Federation representing Leningrad Region. Vice President and Member of the Executive Committee of the Russian Union of Builders. Honored Builder of Russia. Mr. Molchanov was awarded Medal Second Class of the Order For Merit to the Fatherland in 2012.

On 12/23/2016, his share in the Company changed from 60.62% to 60.23% based on securities contract.

**VITALY PODOLSKY**

Member of the Board of Directors, Independent Director

Member of the Board of Directors since April 2016.

Born in 1968.  
In 1991, Mr. Podolsky graduated from M.V. Lomonosov Moscow State University. In 1995, he graduated from the University of Chicago Graduate School of Business.

From 2011 through 2012, Chairman of the Board of Directors of Kronverk Cinema Group of Companies (OJSC Epos), Member of the Board of Directors, Chairman of the Finance and Audit Committee at OJSC RG Brands (Kazakhstan). From 2012 through 2013, Vice President of OJSC Cesar Satellite Group of Companies, Member of the Board of Directors of OJSC Cesar Satellite Group of Companies. From 2012, Member of the Board of Directors, Chairman of the HR and Compensations Committee at PJSC Cherkizovo Group. From 2013 through 2015, Member of the Board of Directors, Chairman of the Finance and Audit Committee at Kazakhstan Kagazy PLC. From 2013 through 2013, Member of the Board of Directors, Chairman of the Finance and Audit Committee at OJSC Uyuterra. From 2013, Member of the Board of Directors, Chairman of the Finance and Audit Committee at Maria's Kitchen LTD. From 2013 through 2015, Member of Audit Committee of the Fiduciary Board at Skolkovo Institute of Science and Technology (Skoltech). From 2014 through 2016, CEO at PJSC ARMADA. From 2015 through 2017, Member of the Board of Directors of PJSC ARMADA. From 2015 through 2016, Executive Partner at FMF Capital.

During the reporting period, he held no shares in the Company.

**ALEKSANDR PRISYAZHNYUK**

Member of the Board of Directors, Independent Director

Member of the Board of Directors since April 2016.

Born in 1972.  
In 1995, he graduated from Kuban State University.

Since 2011, Independent Member of the Board of Directors of PJSC DIXY Group. Since 2011, Independent Member of the Board of Directors, Chairman of the Audit Committee at PJSC M.Video.

During the reporting period, he held no shares in the Company.

**OLGA SHEYKINA**

Member of the Board of Directors

Member of the Board of Directors since June 2010.

Born in 1960.  
Graduated from G.V. Plekhanov Saint Petersburg State Mining Institute in 1983 and from the Interdisciplinary Institution of Advanced Training (Co-operative Management Program) and Retraining of Senior Executives of Saint Petersburg State University of Economics and UNIVERSITE PIERRE MENDES (Grenoble, France) in 2000, Management Program.

Employed at LSR Group and its subsidiary enterprises since its foundation in 1993. From 2002 to 2008, Head of Administrative Office. Since 2008 till present she is Head of LSR Group Moscow Office, Head of the Administration of the Board of Directors of LSR Group, Head of LSR LLC Moscow Office and also CEO of OJSC MTO Arkhproekt (subsidiary of LSR Group). Since October 2015, Deputy Chief Executive Officer for HR Policy at LSR Group. From January 2016, Head of LSR LLC Moscow Office.

On 4/12/2016, his shareholding in the Company changed from 0.138% to 0.143% based on securities contract within the scope of long-term incentive program for management.

**YEVGENIY YATSYSHIN**

Member of the Board of Directors

Member of the Board of Directors since April 2016.

Born in 1970.  
Graduated from the Faculty of Economics of Saint Petersburg State University in 1993, graduated from Saint Petersburg International Management Institute (IMISP), Management Competence, in 2001.

Before 1995, Deputy Head, further Head of Real Estate Division at OJSC CCR SP (LSR Group subsidiary). From 1995 through 1997, First Deputy CEO, further CEO at OJSC GRST-6. In 1997, he was appointed to the position of the First Deputy CEO of OJSC Lenstroyrekonstruktsiya (LSR Group subsidiary). In 1999, he was appointed as CEO of the company. Since 2000, CEO at OJSC CCR SP. Since 2002, Vice President of LSR Group. From November 2003 through January 2005, Chairman of the Construction Committee of Saint Petersburg, further he was back to the position of Vice President of LSR Group. Since August 2006, Managing Director of LSR Group. Since 2012, private investor in real estate market. Since 2016, First Deputy CEO of LSR Group. Honored Builder of Russia.

During the reporting period, he held no shares in the Company.

Oleg Gontcharov, Saydam Salaheddin, Leonid Sorokko, Yelena Tumanova joined the Board of Directors during the reporting year, but by the end of the reporting year they were not members of the Board of Directors.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Committees of the Board of Directors are consulting and advising bodies and are designed to resolve tasks in especially vital business aspects of the company. Their activity is governed by Regulations on Committees of the Company's Board of Directors. Committee meetings are held separately from the meetings of the Board of Directors.

Committee members are elected by the Board of Directors. According to the Listing Rules, the Chairmen of the Audit Committee and the Human Resources and Compensations Committee are only independent directors. The CEO and members of the Executive Committee can not be the members of the Audit Committee or the Human Resources and Compensations Committee. Decisions are made by majority vote of the committee members participating in the meeting. Each committee member has one vote.

Information is provided below regarding the functions and composition of the Board of Directors' committees as of December 31, 2016.

## AUDIT COMMITTEE

The functions of the Audit Committee include preparation of recommendations for the Board of Directors on controlling the company's financial and economic performance. The Audit Committee provides assessment of nominees to be appointed as independent auditors of LSR Group, analyses auditor's opinions, checks the effectiveness of internal control procedures, and draws up proposals for their improvement.

The Audit Committee ensures control over the preparation of financial statements, completeness and fairness of the tax accounting and managerial reporting. There were 5 meetings of the Audit Committee of the Board of Directors in 2016. Meetings of the Executive Committee may be convened at the initiative of the Chairman of the Executive Committee or one of the members of the Executive Committee, as well as upon request of the Board of Directors, the Internal Audit Commission and the auditor.

Activities of the Executive Committee are headed by the Chief Executive Officer, who is the Chairman of the Executive Committee by virtue of his position.

### Composition of the Human Resources and Compensations Committee:

1. Aleksey Petrovich Makhnev;
2. Vitaly Grigoryevich Podolsky, Committee Chairman.
3. Aleksandr Mikhailovich Prisyazhnyuk.

## STRATEGY AND INVESTMENT COMMITTEE

The Strategy and Investment Committee assists the Board of Directors in its responsibilities relating to the corporate strategy including the control of the strategy development and implementation, analysis and approval of acquisitions and business sale transactions, approval and follow-up of major investment projects, and investment budget allocation.

3 meetings of the Strategy and Investment Committee of the Board of Directors were held in 2016.

### The composition of the Strategy and Investment Committee:

1. Dmitry Valeryevich Gontcharov
2. Vasily Maksimovich Kostritsa
3. Aleksey Petrovich Makhnev;
4. Andrey Yurievich Molchanov, Committee Chairman
5. Vitaly Podolsky
6. Aleksandr Mikhailovich Prisyazhnyuk.

## CEO

The CEO and Chairman of the Executive Committee of OJSC LSR Group is Andrey Molchanov.

## CEO



**ANDREY MOLCHANOV**  
Member of the Board of Directors

Member of the Board of Directors since April 2013.

Born in 1971.

In 1993, he graduated from the Department of Economics of Saint Petersburg State University and from the Russian Academy of Public Administration (with a degree in State and Municipal Administration) in 1998. Ph.D in Economics.

Since May 2015, Chief Executive Officer and Chairman of the Executive Committee of PJSC LSR Group. Founded OJSC LSR Group in 1993 and chaired it until 2007. In 2007, he was appointed as the Assistant Minister of Healthcare and Social Development of the Russian Federation. In 2008, he was elected into the Federation Council of the Federal Assembly of the Russian Federation representing Leningrad Region. From April 2013 through April 2015, Chairman of the Board of Directors of LSR Group. Since 2015, Member of the Board of Directors of LLC RAZVITIE. Member of the Civic Chamber of the Russian Federation representing Leningrad Region. Vice President and Member of the Executive Committee of the Russian Union of Builders. Honored Builder of Russia. Mr. Molchanov was awarded Medal Second Class of the Order For Merit to the Fatherland in 2012.

On 12/23/2016, his share in the Company changed from 60.62% to 60.23% based on securities contract.

## EXECUTIVE COMMITTEE

**GALINA VOLCHETSKAYA**

Member of the Executive Committee

Has been Executive Committee member since 2013.

Born in 1967.

Graduated from the Faculty of Law of A.A. Zhdanov Leningrad State University in 1989. PhD in Law.

In 1989–1991, Galina Volchetskaya was a Legal Counsel at USSR State Logistics Committee (Leningrad territorial directorate). In 1992–1994, worked for a private law firm. From 1994 through April 2011, worked in the system of state registration of property rights and deals. In 2000–2002, she gave civil right lectures at Saint Petersburg State University of Engineering and Economics. Galina Volchetskaya joined LSR Group in April 2011. She was appointed as Deputy Chief Legal Officer. In 2013, she became Deputy Chief Operating Officer. Since July 2013, Deputy Chairperson of the Executive Committee, Executive Director. She was awarded the Certificate of Merit of the President of the Russian Federation.

On 4/14/2016, his shareholding in the Company changed from 0.007% to 0.013% based on securities contract within the scope of long-term incentive program for management.

**VASILY KOSTRITSA**

Member of the Executive Committee

Has been Executive Committee member since 2011.

Born in 1964.

In 1986, he graduated from Leningrad Institute of Marine Transport, a degree in Economics and Management of Marine Transport. PhD in Economics, honored Builder of Russia.

Since 1992, he held various positions at North-West River Shipping consistently occupying the positions of Control Engineer, Chief Dispatcher, Deputy Head of Cargo and Commercial Work Service. From 1997, he was CEO of LLC StroyGranit SPb. In 1999, he was appointed CEO of LLC Baltnerud.

In 1997, he was elected as a member of the Board of Directors of OJSC Granit-Kuznechnoye, then, in 2002, was appointed CEO, in 2005, he obtained a position of Managing Director. From January 2011, Managing Director of LSR. Aggregates and Ready-mix Concrete – North-West. In July 2013, he was appointed as Deputy CEO of LLC LSR, Managing Director of LSR. Aggregates and Ready-mix Concrete – North-West. From January 2016, Deputy CEO for Constructional Materials of LSR Group. He was awarded the Honorary Certificate of the Ministry of Regional Development of the Russian Federation and the Certificates of Merit of the Governor and Legislative Assembly of Leningrad Region. Also, Mr. Kostritsa was awarded the Badge of Merit for the Priozersky District. Honored citizen of Kuznechnoye, Leningrad region. Mr. Kostritsa was awarded the Medal of Saint Seraphim of Sarov, 2nd degree and badge of honor of the Order of Honor and Glory of the Moscow Patriarchate. Member of the 4th and 5th Legislative Assembly of Leningrad Region. Deputy Chairman of the Permanent Commission for Natural Resources and Environmental Protection, member of the Permanent Commission for Construction, Transport, Communication and Road Facilities. He was awarded the badge Contribution into Leningrad Region Development.

On 4/12/2016, his shareholding in the Company changed from 0.211% to 0.226% based on securities contract within the scope of long-term incentive program for management.

**DMITRY KUTUZOV**

Member of the Executive Committee

Has been Executive Committee member since 2012.

Born in 1976.

In 1999, he graduated from Saint Petersburg State University of Economics, a degree in Economics. In 2005, he graduated from Saint Petersburg International Management Institute (IMISP), Business Finance program. From 1999 through 2004, he worked in the banking sector. From 2004 through 2008, Head of Economic Planning Department, LSR Group. From October 2008 through 2011, Deputy Chief Financial Officer, Head of Treasury Department, LSR Group. Since May 2011, Chief Financial Officer of LSR Group. From December 2015, First Deputy Chief Financial Officer of LSR Group. Since November 2016, Chief Financial Officer of LSR Group. Awarded the Honorary Certificate of the Vice Governor of Saint Petersburg for high professional achievements, impeccable and conscientious work in the construction industry in 2011. On 4/13/2016, his shareholding in the Company changed from 0.007% to 0.015% based on securities contract within the scope of long-term incentive program for management.

**LEONID SOROKKO**

Member of the Board of Directors

Member of the Board of Directors since April 2015.

Born in 1954.

In 1976 graduated from Leningrad Institute of Civil Engineering with a degree in Industrial and Civil Construction.

Started his career in 1976. He worked for various construction companies holding positions ranging from specialist to CEO. In 2007–2009, Head of Department for Construction of Ministry of Defense of the Russian Federation and Advisor to the Minister of Defense of the Russian Federation. Since November 2013, Deputy CEO of LSR Group. Since January 2016, Deputy CEO for Construction of LSR Group. In 2008, he was awarded the Order Badge of Honor and medals.

On 4/13/2016, his shareholding in the Company changed from 0% to 0.005% based on securities contract within the scope of long-term incentive program for management.



### YEVGENIY YATSYSHIN

Member of the Board of Directors

Has been the Executive Committee Member since December 2016.

Born in 1970. Graduated from the Faculty of Economics of Saint Petersburg State University in 1993, graduated from Saint Petersburg International Management Institute (IMISP), Management Competence, in 2001.

Before 1995, Deputy Head, further Head of Real Estate Division at OJSC CCR SP (LSR Group subsidiary). From 1995 through 1997, First Deputy CEO, further CEO at OJSC GRST-6. In 1997, he was appointed to the position of the First Deputy CEO of OJSC Lenstroyrekonstruktsiya (LSR Group subsidiary). In 1999, he was appointed as CEO of the company. Since 2000, CEO at OJSC CCR SPb. Since 2002, Vice President of LSR Group.

From November 2003 through January 2005, Chairman of the Construction Committee of Saint Petersburg, further he was back to the position of Vice President of LSR Group. Since August 2006, Managing Director of LSR Group. Since 2012, private investor in real estate market. Since 2016, First Deputy CEO of LSR Group. Honored Builder of Russia.

During the reporting period, he held no shares in the Company.

During the reporting year, the membership in the Company's Executive Committee included D.A. Babakov, S.A. Begoulev, A.I. Vakhmistrov, V.V. Zabelin, Yu.Yu. Ilyin, V.P. Kritskiy, B.M. Murshov, A.I. Nikitin, I.L. Romanov, D.V. Hodkevich, T.S. Chernysheva, who were not the Executive Committee members by the end of the reporting year.

### INTERNAL AUDIT COMMISSION

In accordance with the existing legislation and the Articles of Association of LSR Group, the supervision of financial and business operations of LSR Group is exercised by the Internal Audit Commission composed of three persons elected by the General Meeting of Shareholders for the period of one year.

Members of the Internal Audit Commission may not be members of the Board of Directors or hold other positions in the company's management bodies.

Financial and business results of the Company are reviewed annually on a mandatory basis, and additionally at the initiative of the Internal Audit Commission, by decision of the General Meeting of Shareholders, Board of Directors, or upon request of shareholders with at least 10 % of voting shares in PJSC LSR Group.

The competence of the Internal Audit Commission on matters not provided for in the Articles of Association shall be determined by the Regulations on the Internal Audit Commission.

The establishment of the Audit Commission is caused by the requirement of the legislation, under which all public joint stock companies registered on the territory of Russia are obliged to have this structural unit to monitor their financial and economic activity.

### INTERNAL AUDIT SERVICE

In order to enhance the efficiency of control over the company's financial and business operations, the Internal Audit Service was established in 2007. The Internal Audit Service should assess compliance of the financial and business operations of LSR Group, its business units, subsidiaries and associated companies to the interests of LSR Group, secure the company's assets, evaluate risks and develop risks mitigation measures.

### INDEPENDENT AUDITOR

In accordance with the existing legislation, the General Meeting of Shareholders approves an independent auditor to audit the Company's financial statements on an annual basis.

Auditors of LLC Audit-Service SPb can conduct an annual audit of the financial statements of PJSC LSR Group prepared in accordance with RAS and in accordance with IFRS (JSC KPMG).

## COMPOSITION OF THE BOARD OF DIRECTORS

Remuneration and compensation paid to the persons within the management bodies of the company, including the Board of Directors, Executive Committee, for their work in 2016 amount to:

The Board of Directors	Remuneration in 2016 (ths RUB)
Remuneration for participating in work of management body	42,661
Salary	244
Bonuses	0
Commissions	0
Other types of remuneration	
<b>TOTAL</b>	<b>42,905</b>

The Executive Committee	Remuneration in 2016 (ths RUB)
Remuneration for participating in work of management body	621
Salary	343,408
Bonuses	0
Commissions	0
Other types of remuneration	
<b>Total</b>	<b>344,029</b>

Compensation	Compensation in 2016 (ths RUB)
The Board of Directors	1,138
The Executive Committee	0

## INFORMATION POLICY

In the field of information policy, we follow international practice and disclosure requirements of international and Russian law, the British Financial Conduct Authority FSA and the Financial Conduct Authority of the Bank of Russia, as well as the Provision on information policy of the company.

Information on the activities of the PJSC LSR Group is contained in the regularly submitted documents and reports. In particular, in accordance with the requirements of the legislation of the Russian Federation, the company regularly executes and publishes an annual report and quarterly reports of the issuer, which are promptly posted on the site of the company. In accordance with the requirements of the Moscow Exchange, PJSC LSR Group quarterly reports on the observance of the norms of corporate behavior.

Disclosure of information on the activities of the PJSC LSR Group is also carried out in the form of press releases, notices about material facts, lists of affiliated persons of the company.

# SHARE CAPITAL



THE SHARE CAPITAL CONSISTS OF 103,030,215  
ORDINARY SHARES EACH WITH A NOMINAL VALUE  
OF RUB 0.25

## SHAREHOLDERS STRUCTURE

As of December 31, 2016, 32.31% of the share capital of LSR Group was in free float. The key shareholder of LSR Group — Andrey Molchanov — was holding 60.23% of the shares, the company's management — 5.46% and LLC LSR — 2% of the share capital.

## INFORMATION ON ORDINARY SHARES AND GDRS

The company's shares are traded both on domestic and international stock markets. In particular, the company's ordinary shares and bonds are traded on the Russian stock market, the company's global depository receipts (GDRs) are traded on London Stock Exchange (GDR).

### ORDINARY SHARES ON MICEX STOCK EXCHANGE:

Stock exchange: PJSC Moscow Exchange MICEX-RTS  
Ticker: LSRG  
State registration number: 1-01-55234-E  
State registration date: 28.09.2006  
ISIN for ordinary shares: RU000A0JPFPO

### GDRS ON LONDON STOCK EXCHANGE:

Stock exchange: London Stock Exchange  
Ticker: LSRG  
Regulation S GDR  
CUSIP: 50218G206, ISIN: US50218G2066, Common Code: 032415202  
Rule 144A GDR  
CUSIP: 50218G107, ISIN: US50218G1076, Common Code:

## PUBLIC OFFERINGS OF COMPANY'S SHARES

In November 2007, LSR Group carried out an initial public offering. The offering volume was 10,643,618 ordinary shares in the form of ordinary shares and global depository receipts.

The offering price was USD 72.50 per share and USD 14.50 per global depository receipt. As a result, LSR Group raised USD 588 m (adjusted for the IPO costs). The IPO of LSR Group became one of the largest public offerings implemented by a construction sector company in Russia.

On April 30, 2010, LSR Group carried out a secondary public offering. A total of 9,366,383 ordinary shares in the form of global depository receipts were placed under international offer. The net proceeds after deducting all the offering expenses were USD 385 m. As a result of the secondary public offering, the total number of shares increased up to 103,030,215 shares.

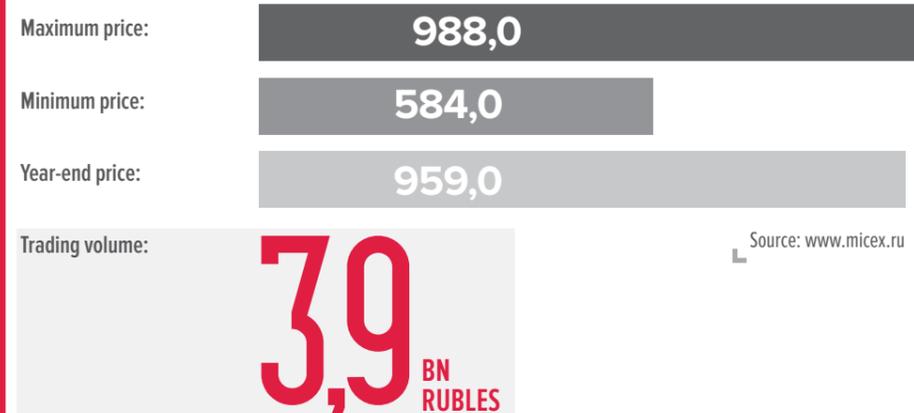
As of December 31, 2016, the ordinary shares of LSR Group are included into the quotation list of the First level of PJSC Moscow Exchange MICEX-RTS under the ticker LSRG.

LSR Group's global depository receipts are traded under the ticker symbol LSRG on the Main Market of London Stock Exchange (LSE). Each depository receipt represents 1/5 of an ordinary share (a ratio of 5 GDRs : 1 Ordinary Share).

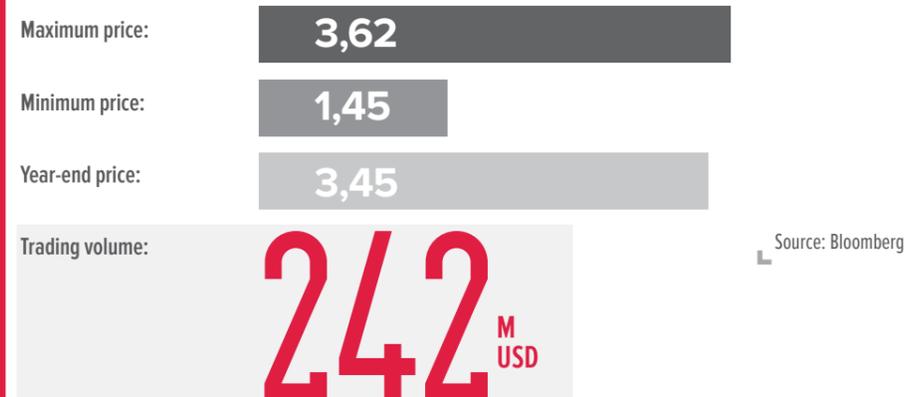
The GDR programme is implemented and supported under Regulation S and Rule 144A. Deutsche Bank Trust Company Americas acts as depository and the functions of custodian bank are performed by PJSC VTB Bank.

## SHARE PRICE PERFORMANCE

### ORDINARY SHARES ON PJSC MOSCOW EXCHANGE MICEX-RTS IN 2016, RUB



### GDRS ON LONDON STOCK EXCHANGE IN 2016, USD



## DIVIDEND POLICY

The dividend policy of Lsr group is developed in accordance with the existing Russian legislation, the company's charter and internal regulations of LSR Group.

In 2014, the Board of Directors of LSR Group adopted a new version of the dividend policy, which is available on the company's website.

The recommended amount of dividend payments is determined by the Board of Directors based on the company's annual financial results and, as a rule, constitutes at least 20% of the consolidated net profit as per IFRS.

Prior to 2011, LSR Group did not pay out dividends. The company's profit was reinvested into business development.

In 2012, after analyzing the company's capital structure, the Board of Directors recommended that the Shareholders Meeting should consider returning surplus capital to our shareholders in the form of dividends to be paid based on the results of the 2011 fiscal year.

## PAYOUT HISTORY

Year	Dividend per share, RUB	Total amount of dividends declared, RUB m.	Total amount of dividends paid, RUB m.	Date of approval by AGM
2010	15	1 545 453 225	1 545 453 225	07.04.2011
2011	20	2 060 604 300	2 060 604 300	05.04.2012
2012	20	2 060 604 300	2 060 604 300	05.04.2013
2013	40	4 121 208 600	4 121 206 600	20.06.2014
2014	78	8 036 356 770	8 036 352 870	07.04.2015
2015	78	8 036 356 770	8 036 149 378	05.04.2016

### DEPOSITARY'S CONTACTS

#### Deutsche Bank Trust Company Americas

London +4 4 207 547 6500  
New York +1 212 250 9100  
Moscow +7 495 797 52 09

Correspondence address: Deutsche Bank Trust Company Americas  
Depository Receipts, 60 Wall Street New York NY 10005-2836  
Address in Russia: 82 Building 2, Sadovnicheskaya Street,  
115035, Moscow, Depository Receipts

### RUSSIAN REGISTRAR'S CONTACTS

#### JSC VTB REGISTRAR (license 045-13970-000001)

Address: 23, Pravdy Street, 127015 Moscow  
Phone: +7 495 787-44-83

# SOCIAL RESPONSIBILITY

## SOCIAL MISSION

### AND RESPONSIBILITY OF LSR GROUP

LSR GROUP'S MISSION, AS ONE OF THE LARGEST CONSTRUCTION COMPANIES IN THE COUNTRY, IS TO PROVIDE PEOPLE WITH A BASIC NECESSITY – HOUSING, OR A SPACE FOR EVERYDAY LIFE, COMMUNICATION, ART, DEVELOPMENT, AND PRESERVATION OF FAMILY TRADITIONS AND VALUES

The company operates so that people residing in cities and towns could fulfill their dream of living in a high-quality modern house. And it makes sure that these buildings make people's life comfortable for many years.

Our social policy is underpinned by a special philosophy: business must operate not only for profit, but also for the benefit of the society. It is essential for us to create new values not only through dividends for shareholders, but also through benefits for the country and its people.

So far LSR Group has come to a stage when it is able to maintain supreme values and invest in the areas where common good is generated.

## PRIORITY AREAS OF LSR GROUP

### EXTERNAL SOCIAL PROGRAMS

- CHILDREN AND FUTURE
- RESTORATION AND PRESERVATION OF THE CULTURAL HERITAGE OF THE COUNTRY
- REGIONAL DEVELOPMENT IN OUR KEY MARKETS
- HEALTHY LIFESTYLE SUPPORT AND PROMOTION
- SUPPORT OF VETERANS, DISABLED PEOPLE, VULNERABLE SOCIAL GROUPS

The main principles of development and implementation of LSR Group external social programs are as follows:

- targeting: assistance is provided to specific organizations or persons in need;
- respect for people and social traditions of the regions;
- link of social programs with strategic priorities of the main area of work and corporate culture values;
- effective and transparent management of social programs;
- regard for concerned parties' opinion;
- personnel involvement. The company initiates activities in the area of corporate social responsibility and involves its employees in solving socially relevant problems;
- regular audit and continuous improvement of social programs.

We use modern approaches to implementing charitable programs. The company allocates both financial and non-financial resources in order to render assistance, including monetary funds and construction materials; consulting services for non-profit organizations, and philanthropic activities led by the company's employees.

## CHILDREN AND FUTURE

### SOCIAL PROGRAMS OF LSR GROUP AIM TO PROVIDE EVERY CHILD WITH WHAT THEY VITALLY NEED FOR A FULL AND HAPPY CHILDHOOD: A LOVING FAMILY AND A SAFE DEVELOPMENTAL ENVIRONMENT

#### ANGELS WITH BROKEN WINGS PROJECT CARRIED OUT IN ASSOCIATION WITH PARENTS' BRIDGE PUBLIC CHARITY FOUNDATION

One of the most significant and effective charitable projects carried out by LSR Group is its long-term cooperation with Parents' Bridge Foundation which helps children without parental care to find new families.

This cooperation started in 2004 as a program jointly implemented by the foundation and LSR Group employees in order to support families willing to adopt orphans. In total, 165 children have already found new parents as part of the Angels with Broken Wings program. Funds are allocated for the targeted financial support of the adopted children and foster children, individual work of psychologists and social educators supporting adoptive families and prevention of repeated child abandonment. In 2016, Parents' Bridge Foundation, jointly with LSR Group, continued to fulfill its official authority to train people willing to adopt a child left without parental care as part of the School for Foster Parents. In 2016, 61 children were sent to such families.

#### SUPPORT FOR THE WORK OF THE NORTH-WEST ORPHANS FUND DETI ZHDUT

In 2016, LSR Group in association with the North-West Orphans Fund Deti Zhdut continued another program targeted at assisting the adoption of orphans as well as maintaining and developing the interactive web portal [детизждут.рф](http://detizhdut.spb.ru). The portal contains complete, reliable and constantly updated information about orphans living in orphanages of the North-Western District of Russia. Since the project was started, 2596 children have already found a family.

#### MAMA RYADOM PROJECT IN COOPERATION WITH THE FUND DETI ZHDUT

In 2016, LSR Group and Deti Zhdut Fund continued working on their joint Mama Ryadom Project aimed at young mothers who found themselves in a difficult situation. The key mission of the project is to prevent orphanhood, namely keep the child within a family, teach mothers new knowledge and skills for successful socialization for the children's benefit.

In the House for Mothers, women and their babies are provided with accommodation in a comfortable and fully equipped apartment, assistance of psychologists, lawyers, and social workers. The fund's employees guide young mothers in learning how to tackle everyday household issues, plan their budget, raise and teach their children. Over 2016, the total of 10 mothers and 12 children resided in this shelter.

#### MUSIC FROM A TO Z PROJECT AT THE GRAND CONCERT HALL OKTYABRSKY

In 2016, several charitable concerts for children were given at the Grand Concert Hall Oktyabrsky, St. Petersburg, with support from LSR Group. They were a huge success with the young audience, prompting their positive feedback. Children from low-income and large families were invited to listen to popular songs, opera arias, symphonic music as well as to watch folk dances and take part in exciting contests. Children of LSR Group employees were also among the guests.

#### JOINT PROJECT WITH ARTERIA CENTRE

Arteria Centre for Collective Art Work has been functioning since December 2013 as a social project financed by LSR Group. It brings together children with disabilities and orphans who take part in artistic activities jointly with children without disabilities who live in families. The activities primarily intend to give disabled children more ample opportunities to socialize and get involved in the system of social relations as well as to broaden their social networks.

In 2016 academic year, 122 children took a course at the centre. Apart from arts, the centre also offers classes in music, literature, and English. Moreover, a child magazine Moo is published with support of LSR Group and distributed in orphanages, hospitals and among the children of the company's employees.

#### RESTORATION AND PRESERVATION OF THE CULTURAL HERITAGE OF THE COUNTRY

In 2016, LSR Group traditionally took part in various projects focused on the promotion of national culture and preservation of artistic and historical treasures. The company allocated the necessary construction materials and contributed funds to the operation of Feodorovsky Royal Cathedral in Pushkin, Cathedral of Our Lady of Tikhvin in St. Petersburg, Holy Spirit Temple in St. Petersburg, Fishermen Temple (Temple of the Holy Apostle Andrew) in St. Petersburg, St. Sophia Cathedral in Pushkin, Transfiguration Temple and seminary dormitory in Pidma, Our Lady of the Sign Temple in Turygino, St. Petersburg Orthodox Theological Academy. In 2016, St. Sergius of Radonezh Foundation for Preservation of the Spiritual Heritage continued to implement a number of projects and programs with the support of LSR Group.

With the assistance of the Group, a new film "Prince Vladimir. The Baptism Of Rus" was released in 2016. The Group provided its assistance in the holding of exhibitions in Hermitage, concerts in Oktyabrsky Hall ("Music. Film. Andrey Petrov") and projects related to the development of cinematography.

Among other things, LSR Group provided material assistance to XXI Journalist Award "Zolotoye Pero" and I International Competition for Young Pianists.

In June 2016, X International Theater Festival of Modern Playwriting "Kolyada-Plays" was organized with the support of LSR Group in Yekaterinburg. The Festival was aimed at support and promotion of modern drama, theater arts development. The main program included performances based on plays of the Ural School of Drama, as well as plays highlighted in the framework of the annual international contest of playwrights Eurasia.

#### INVOLVEMENT IN SPORTS DEVELOPMENT

For several years, LSR Group has been actively participating in sporting events. In 2016, the company supported the football team of the Episcopacy, helped other athletes in their events.

#### REGIONAL DEVELOPMENT IN OUR KEY MARKETS

In parallel with their contribution as major employers and taxpayers, LSR Group's enterprises are actively involved in tackling priority issues in terms of developing the regions where they operate by allocating funds for the support of social and charitable programs and taking part in sites improvement, construction and reconstruction of important social facilities. In 2016, we transferred substantial funds to the budgets of the regions of the company's presence for development of social infrastructure.

LSR Group provided financial assistance for a large-scale program dealing with the purchase of the necessary equipment and renovation of children's preschool institutions, comprehensive schools, sports facilities, culture and health care institutions in Leningrad Region.

# EMPLOYEES

## GENERAL PROVISIONS (HR POLICY)

The main principle of LSR Group HR policy is that our people are the strategic resource of the company.

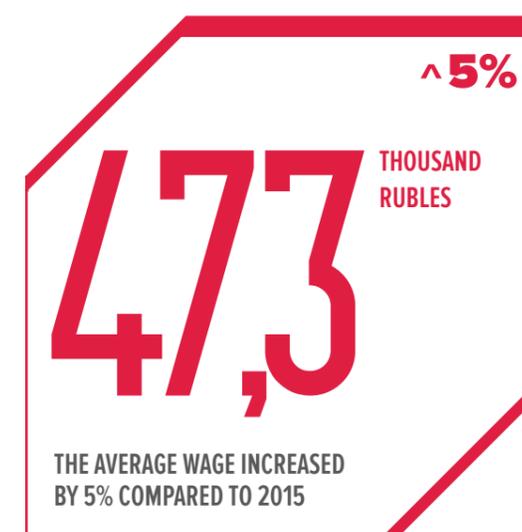
**OUR TASK IS TO CREATE OPPORTUNITIES FOR OUR EMPLOYEES TO UNLOCK THEIR POTENTIAL AND FULFILL THEIR PROFESSIONAL AMBITIONS AS PART OF LSR GROUP DEVELOPMENT STRATEGY**

LSR Group corporate HR policy is based on the unified principles of recruitment, training, social support, motivation and remuneration of our employees in order to implement the company's business goals more efficiently.

By creating favorable working conditions, maintaining decent salaries and improving professional skills of our people we ensure high efficiency and supreme quality of our products and services which are the drivers of our future achievements.

## GENERAL INFORMATION ON EMPLOYEES

LSR Group is one of Russia's largest employers. The number of employees in LSR Group companies at year-end 2016 was about 15,000 people. Most of them are working in our business units in the North-Western Federal District, 25% of our employees are working in other regions of presence, i. e. Moscow Region, Ural and Ukraine. Blue-collar workers account for 70% of LSR Group personnel. Average employment period in LSR Group companies is 5.5 years. Average age of LSR Group employees is 39 years.



## EMPLOYEE MOTIVATION

### LSR GROUP USES CONTEMPORARY MOTIVATION TECHNIQUES AIMED TO IMPROVE PERSONNEL EFFICIENCY AND ENCOURAGE PERSONAL INVOLVEMENT IN THE COMPANY'S GOALS

The incentive programs for top managers answering the company's annual and medium-term goals are being successfully implemented.

LSR Group guarantees our employees stable income and timely payment of competitive salaries. In 2016, Company's payroll expenses excluding allocations for social needs exceeded 10.5 billion rubles. Average salary amounted to 47,294 rubles, i. e. 5% more than the 2015 average salary.

LSR Group also uses non-financial motivation techniques, including Corporate Rewards of LSR Group. In 2016, 268 employees of LSR Group were given corporate awards including 2 employees awarded with the highest corporate reward, the Golden Medal "Best in LSR".

The achievements of LSR Group employees have been acknowledged with various governmental, city, and public rewards for their achievements in construction, industry, building materials, and contribution to the development of the construction sector. In 2016, 216 employees of LSR Group were awarded.

## SOCIAL SECURITY

LSR Group social policy is based on the efficient labor management and social security of personnel. LSR Group companies comply with the existing labor regulations including those related to social benefits and social security for all categories of employees. Great attention is paid to the employees' welfare: catering, provision of work clothing, emergency medical aid, in-house medical stations and health care arrangements with local medical institutions, annual employee vaccination, transfers to outlying work locations. LSR Group employees are also provided with health resort treatment benefits.

In 2016, we introduced a number of programs aimed to increase availability of housing for LSR Group employees. The programs provide discounts on apartments constructed by our business units. In 2016, 195 employees of LSR Group used this opportunity to improve their living conditions.

In total, 213 million rubles were allocated for social programs in 2016. In particular, financial aid to the employees amounted to 42.5 million rubles, which was 2 times more as compared to 2015.

In 2016, 482 children were born to corporate employees, amongst whom 193 children were the second child and 52 were the third child in their families. Thus, LSR Group employees' confidence in the future is credible.

## GROWING TOGETHER WITH LSR

In 2016, program «Growing together with LSR» was continued. It is aimed at increasing awareness of LSR Group brand, the popularization of the builder, the strengthening of corporate traditions and family values, the increase of employee engagement in loyalty to LSR Group. The target audience of the program is employees of LSR Group and their children, members of charitable projects and students in public and private educational institutions of higher and secondary vocational education.

The program is implemented in all regions of LSR Group presence. 26 events were carried out for employees' children in 2016: cultural and educational creative competitions, master classes. A special priority is given to sightseeing and entertainment programs at enterprises and construction sites of LSR Group that can be visited by partners and customers of the Company. More than RUB 6 million were allocated for the program «Growing together with LSR». Elements of the brand «Growing together with LSR» are used for the construction of kindergartens and schools.

In 2016, «Growing together with LSR» Program was also associated with a number of goodwill children projects of the company. In particular, with the operation of Arteriya Drawing School, where children with disabilities and vulnerable children study. During the year, within the program LSR Group carried out creativity competitions for children of the employees and students of the school. As the result, four issues of children's magazine were jointly published. The work was aimed at socialization of children-students of the school and general social development and education of tolerance culture among children of the company's employees.

Work with specialized educational institutions takes a special place in the project. To date, systematic trips to LSR Group businesses are arranged together with industrial placements of pupils and students at Company's subsidiaries with the opportunity of subsequent employment.

## DEVELOPMENT

In 2016, our centralized Personnel Evaluation and Development Center continued implementing programs for company's managers and specialists training.

60 employees have also completed courses within the scope of corporate managers training and development system such as "Tools for Efficient Work" and "Competent Manager". In addition, LSR Group internal experts implemented Business Erudite program which included 3 courses - Corporate Finance and Economics, Marketing Management and Data Analysis and Modeling in EXCEL. New long-term program "Coaching as a Development Tool" was successfully implemented in 2016. Besides, in 2016, strategic sessions and internal trainings for managers of production, commercial and financial divisions and HR department were in demand. This approach helped to update plans and methods of work. Successful cooperation with Peter the Great Saint Petersburg Polytechnic University continued with respect to the "Fundamentals of Construction" program for employees of the LSR Group.

A certified test center for various construction specialties operates on the basis of Personnel Evaluation and Development Center. Based on this testing, a certificate for the right to carry out work in the corresponding field is issued.

Furthermore, LSR Group subsidiaries continue having their own training centers aimed to satisfy the company's demand for qualified professionals. In 2016, more than 1,500 employees were trained in such centers. number of employees trained during 2016 exceeded 3,600 employees. Total costs for the implementation of all training centers in 2016 amounted to 13.5 million rubles.

In order to promote development and implementation of business ideas and innovations, annual "Development" award continued in 2016. In 2016 95 applications were submitted including 46 applications that were approved for further detailed analysis and implementation. The final shortlist included 394 projects. Financial effect of the innovation projects implemented in 2015–2016 amounted to over 73 million rubles.

# ENVIRONMENTAL PROTECTION

**WE RECOGNIZE THE IMPORTANCE OF PROTECTING THE ENVIRONMENT AND TAKE THIS INTO ACCOUNT BY INTRODUCING CUTTING-EDGE TECHNOLOGIES, UPGRADING OUR EQUIPMENT, REDUCING INDUSTRIAL WASTE AND EMISSIONS, MAKING PRODUCTS THAT COMPLY WITH INTERNATIONAL ENVIRONMENTAL STANDARDS, AND REDUCING ENERGY CONSUMPTION.**

**STRIVING FOR A LEADING POSITION IN THE INDUSTRY AND IN ENVIRONMENTAL MANAGEMENT, LSR GROUP IMPLEMENTS THE BEST ENVIRONMENTAL MANAGEMENT PRACTICES.**

## ENVIRONMENTAL POLICY OF LSR GROUP

In our environmental protection activities we assume broad responsibilities to society for maintaining clean environment.

The company's environmental policy is based upon strict compliance with the environmental legislation of the Russian Federation. Our enterprises undergo environmental audit on a regular basis to review their compliance with the existing environmental regulations.

All LSR Group companies have up-to-date permits required to make their business. Appropriate licenses were obtained for licensed types of business.

## IMPLEMENTATION OF ENVIRONMENTAL PROTECTION PROGRAMS

During 2016, our subsidiaries were carrying out the pre-scheduled environmental activities. Development of new technologies, introduction of environmentfriendly solutions, reduction of fuel consumption and pollutant emissions are an integral part of our environmental policy. Throughout the year, business unit LSR. Construction – North-West undertook a range of environmentally friendly actions. All the construction sites were provided with environmental production control; wastes were removed from the sites to licensed landfills and recycling facilities. Deratisation and disinsection activities were performed on all the construction sites in order to improve sanitary and hygienic conditions. Waste generation and placement were developed for new construction sites.

In 2016, LSR. Construction-Moscow organized cooperation with licensed organizations dealing with production and consumption waste management. Industrial environmental control was implemented in accordance with a special program. In addition, in 2016, the Group and Eko-Ekspress jointly held industrial environmental monitoring of compliance with norms of maximum permissible emissions and verification of effectiveness of gas cleaning installations.

In 2016, LSR Walling Materials North-West also carried out the planned activities. At Aeroc plant of aerated concrete, the sorbent agent and filter elements in wastewater treatment units were replaced (for prevention of pollution by sewage), domestic and storm sewer installations were cleaned (for prevention of excess wastewater discharges); water intake equipment was inspected and underwent corrosion removal, filtering element in fish

protection system(under water use agreement and to prevent pollution of natural waters); cartridge filters were replaced (for prevention of excess emissions into the atmosphere). Sewerage utilities at brick manufacturing were regularly cleaned(to prevent sewage pollution of soil, water), inlet ventilation conditioner was replaced with a new one (for prevention of local air pollution and atmospheric air pollution).

In addition to the ongoing activities for environmental protection, LSR. Aggregates and Ready-Mix Concrete traditionally carried out a complex of measures for fish release in Ladoga Lake. 2,600,000 perch larvae were released in Shidrozero Lake in Boksitogorsky District of Leningrad Region in 2016 In addition to that, LSR Group took a number of atmospheric air protection measures (industrial and environmental monitoring, development and coordination of projects for maximum permissible air emissions of pollutants, sanitary and protected zone projects).

In 2016, LSR.Reinforced Concrete-NW carried out routine checks of effectiveness of dust and gas collectors, monitored atmospheric emissions of pollutants, performed noise measurements and laboratory and instrumental examination of atmospheric air at the borders of the established sanitary and protected zones, examined soil probes in its units, as well as carried out laboratory studies of wastewater and drinking water.



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