

**Report by the Board of Directors of PJSC LSR Group
setting out a reasoned position of the Company's Board of Directors
on the agenda of the Annual General Meeting of the Company's Shareholders to be held on
June 29, 2018.**

ITEM 1 on the agenda: Approval of the Company's 2017 Annual Report.

Recommendation:

The Board of Directors recommends that the shareholders approve the 2017 Annual Report by PJSC LSR Group.

Position of the Board of Directors:

The Board of Directors has preliminarily approved the Annual Report.

The Annual Report has been prepared in accordance with the Federal Law "On Joint-Stock Companies", requirements of the Regulations No. 454-P on the Disclosure of Information by Issuers of Equity Securities of 12/30/2014 and recommendations of the Corporate Governance Code (as recommended by letter no. 06-52/2463 of the Central Bank of the Russian Federation (Bank of Russia) of April 10, 2014).

The reliability of the data contained in the Annual Report has been confirmed by the Audit Committee of PJSC LSR Group.

ITEM 2 on the agenda: Approval of the Company's 2017 Annual Accounting (Financial) Statements.

Recommendation:

The Board of Directors recommends that the shareholders approve the 2017 Annual Financial Statements of PJSC LSR Group.

Position of the Board of Directors:

The Board of Directors has reviewed the 2017 Annual Financial Statements of PJSC LSR Group, which was prepared under the Russian Accounting Standards (RAS). The Board of Directors has also examined a report by the Company's auditor, LLC Audit-service SPb, on the Financial Statements of PJSC LSR Group under the RAS and an opinion of the Audit Committee of PJSC LSR Group on the latter's performance in 2017.

Having analyzed the information submitted, and relying on the auditor's report and the Audit Committee's opinion, the Board of Directors believes that the Annual Financial Statements present fairly, the financial position of PJSC LSR Group as of December 31, 2017, the results of its financial and business operations and its cash flows for 2017 in accordance with the RAS.

ITEM 3 on the agenda: Distribution of the Company's profits for the 2017 fiscal year.

Recommendation:

The Board of Directors recommends that the shareholders distribute the profits of PJSC LSR Group for the 2017 fiscal year as follows:

- to pay dividends on ordinary registered shares following the results of the 2017 fiscal year in the amount of seventy-eight (78) rubles per one ordinary registered share for a total amount of eight billion thirty-six million three hundred and fifty-six thousand seven hundred and seventy (8,036,356,770) rubles, including due to undistributed earnings of previous years. Dividend payment shall be made in the form of monetary funds. The record date shall be deemed as follows: 7/10/2018.

- not to pay remunerations and compensations to the members of the Internal Audit Commission within the period of performance of their obligations till the next annual General Meeting of the Company's shareholders.

- to approve the amount of remunerations and compensations paid to the members of the Company's Board of Directors within the period of performance of their obligations relating to execution of the functions of the members of the Board of Directors in the amount of forty-nine million two hundred thousand (49,200,000) rubles.

Position of the Board of Directors:

The Board of Directors has reviewed the production and financial results of PJSC LSR Group for 2017, its current financial position and priorities for the future industrial and social development of PJSC LSR Group.

Having analyzed the information submitted, and relying on the Company's auditor's report on the Financial Statements under the RAS, the Board of Directors believes that PJSC LSR Group may distribute its net profits as indicated above.

The Board of Directors of PJSC LSR Group also believes that the Company's financial position is in line with the prerequisites for the declaration and payout of dividends on the Company's shares for 2017 as laid down in Section 43 of the Federal Law On Joint-Stock Companies, provided that:

- PJSC LSR Group will show any signs of insolvency (bankruptcy) as set forth in the Russian legislation on insolvency (bankruptcy) neither at the date of the decision to pay out dividends or distribution of dividends, nor following the payout of such dividends; and
- the net asset value of PJSC LSR Group will not be less, or become less following the decision to pay out dividends or distribution of dividends, than its authorized capital or reserve fund (as of 12/31/2017, the net asset value of PJSC LSR Group amounted to RUB 42,503,843 thous., exceeding its authorized capital and reserve fund by RUB 42,478,085 thous.).

The Board of Directors does not therefore presume that the declaration or distribution of dividends for the 2017 fiscal year would adversely affect the strategic potential of PJSC LSR Group in the long run.

Under Section 64 § 2 of the Federal Law On Joint-Stock Companies, the determination of the remuneration payable to the members of the Board of Directors and compensation for their expenses relating to the performance of their duties in such a capacity shall be the province of the General Meeting of Shareholders. It is thus recommended that the General Meeting of Shareholders determine the remuneration payable to the members of the Board of Directors and compensation for their expenses.

ITEM 4 on the agenda: Determination of the number of members of the Board of Directors.

Recommendation:

The Board of Directors recommends that the shareholders resolve that the number of members of the Board of Directors be seven (7).

Position of the Board of Directors:

Under the Federal Law On Joint-Stock Companies, for a joint-stock company having more than one thousand holders of voting shares, the number of members of the Board of Directors may not be less than seven.

The Board of Directors believes that having seven (7) members is optimal for PJSC LSR Group. This number is enough for implementation of all tasks faced by the Board of Directors without efficiency decrease due to its excessive size at the same time. Within this number of members, the Board of Directors members' qualification, experience, knowledge, and business qualities make it possible to organize the work in the most efficient and effective way, in particular to establish all necessary Committees of the Board of Directors.

ITEM 5 on the agenda: Election of the members of the Company's Board of Directors.

Recommendation:

The Board of Directors recommends that, in case of cumulative voting, the shareholders distribute their votes evenly among all candidates.

Position of the Board of Directors:

The Company's interests require that its Board of Directors comprises independent directors having expertise in finance, construction, production of construction materials and holdings' strategies, who are able to offer practical help with the development of PJSC LSR Group as one of the leading Russian constructors.

Under the Regulations on the Board of Directors of the Company, the following candidates for the Company's Board of Directors meet the independence criteria:

1. Aleksey Petrovich Makhnev (independent director);
2. Andrey Andreevich Nesterenko (independent director)
3. Vitaly Grigorievich Podolsky (independent director);
4. Aleksandr Mikhailovich Prysyzhnyuk (independent director).

However, the Company is no less interested in its Board of Director also comprising executive directors who are its employees and who, in addition to their experience and professional skills, are aware of the key assets, strategy and business practices and are well acquainted with the Company's corporate structure and key management personnel.

The Company is thus equally interested in the election of all proposed candidates to its Board of Directors.

ITEM 6 on the agenda: Election of the members of the Company's Internal Audit Commission.

Recommendation:

The Board of Directors recommends that the shareholders vote for the following candidates: Natalya Sergeyevna Klevtsova, Denis Grigorievich Sinyugin and Lyudmila Valeryevna Fradina.

Position of the Board of Directors:

Under Clause 20.2. of the Charter of PJSC LSR Group, the Audit Committee shall be elected to comprise 3 members.

All candidates for the Audit Committee are recognized professionals who use their business expertise and knowledge of accounting, finance, control over financial and business operations and law to enable the Audit Committee to carry out its tasks more efficiently.

ITEM 7 on the agenda: Approval of the Company's auditors for 2018.

Recommendation:

The Board of Directors recommends that the shareholders resolve that the auditor for PJSC LSR Group's 2018 Financial Statements under the Russian Accounting Standards be LLC Audit-service SPb.

Position of the Board of Directors:

LLC Audit-service SPb has been auditing the financial statements of the companies that are part of LSR Group since 1999.

LLC Audit-service SPb specializes in the following areas: audit of companies that invest in securities, construction, development, production of building materials and products, transport and other services.

LLC Audit-service SPb is a member of the Self-Regulatory Organization of Auditors Association "Sodruzhestvo" whose abbreviated name is SRO AAS (ORNZ [Primary Number of Registration Entry] 116060647).

In 2005, 2009, 2014 and 2016, following the control results in relation to quality of auditing activity and observance of professional ethics, positive opinions were received from NP "Russian Audit Chamber".

In 2014, following the control results in relation to quality of auditing activity and observance of professional ethics, positive opinion was received from the Federal Financial and Budgetary Supervisory Service (Rosfinnadzor) No. 72-13-04/2752 of August 5, 2014.

Based on the results of the scheduled on-site external inspection of audit organization work quality and professional ethics observance positive opinion No. 7 was received from the Federal Treasury Department for Saint Petersburg of 04/25/2018.

Recommendation:

The Board of Directors recommends that the shareholders resolve that the auditor for the Company's 2018 Consolidated Financial Statements prepared in accordance with the IFRS be JSC KPMG.

Position of the Board of Directors:

JSC KPMG has been auditing the Company's consolidated financial statements under the IFRS since 2006. To observe the principle of objectivity, JSC KPMG rotates its audit teams from time to time.

JSC KPMG is one of the leading international audit firms known as the "Big 4". JSC KPMG provides services to a number of major Russian and international construction companies. Such services include auditing under international and Russian standards, as well as tax, legal, general, financial and business management counseling.

JSC KPMG is the largest audit company in Russia (rating of the largest audit groups and networks on the basis of revenue from audit according to the Expert RA rating agency, 2016).