

**Report by the Board of Directors of PJSC LSR Group (the ‘Company’)  
setting out and justifying the position of the Company’s Board of Directors  
on agenda items for the Company’s Annual General Meeting of Shareholders  
to be held on 28 June 2019**

**Agenda ITEM 1: Approval of the Company’s 2018 Annual Report**

Recommendation:

The Board of Directors recommends that shareholders approve the 2018 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 was prepared in accordance with the Federal Law ‘On Joint-Stock Companies’, the requirements of Regulations No. 454-P on the Disclosure of Information by Issuers of Equity Securities, dated 30 December 2014, and the recommendations of the Corporate Governance Code (as recommended by letter 06-52/2463 of the Central Bank of the Russian Federation (Bank of Russia), dated 10 April 2014).

The accuracy of the data contained in the Annual Report has been confirmed by the Internal Audit Commission of PJSC LSR Group.

**Agenda ITEM 2: Approval of the Company’s 2018 Annual Accounting (Financial) Statements**

Recommendation:

The Board of Directors recommends that shareholders approve the 2018 Annual Accounting (Financial) Statements of PJSC LSR Group.

Position of the Board of Directors:

The Board of Directors has reviewed the 2018 Annual Accounting (Financial) Statements of PJSC LSR Group prepared in accordance with the Russian Accounting Standards (RAS). The Board of Directors has also reviewed a report by the Company’s auditor, LLC Audit-service SPb, on the Accounting (Financial) Statements of PJSC LSR Group prepared in accordance with RAS, and the opinion of the Internal Audit Commission of PJSC LSR Group on the latter’s performance in 2018.

Having analysed the information submitted, on the basis of the auditor’s report and the Internal Audit Commission’s opinion, the Board of Directors believes that the Annual Accounting (Financial) Statements accurately reflect the financial position of PJSC LSR Group as of 31 December 2018 and its financial and business performance and cash flow for 2018 in accordance with RAS.

**Agenda ITEM 3: Distribution of Company profits for the 2018 fiscal year**

Recommendation:

The Board of Directors recommends that shareholders distribute the profits of PJSC LSR Group for the 2018 fiscal year as follows:

- pay dividends on ordinary registered shares in accordance with the results of the 2018 fiscal year in the amount of seventy-eight (78) roubles 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) roubles. Dividends shall be issued in monetary form. The record date shall be 10 July 2019.
- not pay remuneration and compensation to the members of the Internal Audit Commission within the period of performance of their obligations until the next Annual General Meeting of the Company’s shareholders.
- approve the amount of remuneration and compensation paid to the members of the Company’s Board of Directors within the period of performance of their obligations to execute the functions of members of the Board of Directors in the amount of 55 million (55,000,000) roubles.

Position of the Board of Directors:

The Board of Directors has reviewed the production and financial performance of PJSC LSR Group for 2018, its current financial position, and priorities for the future industrial and social development of PJSC LSR Group. Having analysed the information submitted, and on the basis of the Company auditor’s report on

the Accounting (Financial) Statements in accordance with 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 issue of dividends on the Company's shares for 2018 as established by Article 43 of the Federal Law 'On Joint-Stock Companies', provided that, on the date a decision is made about the issue of dividends and on the date dividends are issued:

- PJSC LSR Group does not show any signs of insolvency (bankruptcy) pursuant to the Russian legislation on insolvency (bankruptcy) and will not show these signs as a result of the issue of dividends; and
- the net asset value of PJSC LSR Group is not and will not become less than its authorized capital or reserve fund as a result of the decision to issue dividends or as a result of the issue of dividends (on 31 December 2018, the net asset value of PJSC LSR Group amounted to RUB 42,873,741,000, exceeding its authorized capital and reserve fund by RUB 42,846,695,000).

Hence, the Board of Directors does not expect that the declaration or issue of dividends for the 2018 fiscal year would adversely affect the strategic potential of PJSC LSR Group over the long term.

Under Clause 2, Article 64 of the Federal Law 'On Joint-Stock Companies', 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 as members of the Board shall be the remit of the General Meeting of Shareholders. It is therefore recommended that the General Meeting of Shareholders approve the remuneration and compensation payable to members of the Board of Directors.

#### **Agenda ITEM 4: Determination of the number of members of the Company's Board of Directors**

##### Recommendation:

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

##### Position of the Board of Directors:

In accordance with the Federal Law 'On Joint-Stock Companies', joint-stock companies with more than one thousand holders of voting shares must have not less than seven members of the Board of Directors.

The Board of Directors believes that seven (7) members is the optimal number for PJSC LSR Group. This is sufficient for all the tasks taken on by the Board of Directors. With this number of members, the qualifications, experience, knowledge, and business qualities of the members of the Board of Directors make it possible to organize Board activity for optimal effectiveness, and in particular to establish all the necessary Committees of the Board of Directors.

#### **Agenda ITEM 5: Election of members of the Company's Board of Directors**

##### Recommendation:

The Board of Directors recommends that, where voting is cumulative, shareholders distribute their votes evenly among all candidates.

##### Position of the Board of Directors:

It is in the interests of the Company that its Board of Directors include independent directors with experience in and knowledge of finance, construction, the production of construction materials and holding company strategies, and who are able to offer practical help with the development of PJSC LSR Group as a leader in the Russian construction industry.

In accordance with the decision taken by the Board of Directors on 15 May 2019, the Listing Rules for PJSC Moscow Exchange, and the Regulation 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. Alexander Mikhailovich Prysyzhnyuk – independent director

However, the Company is no less eager to ensure that its Board of Directors includes LSR Group employees who, in addition to their experience and professional skills, are aware of the key assets, strategy, and

business practices of the Company and are well acquainted with the Company's corporate structure and key management personnel.

The Company thus has an equal interest in the election of all the proposed candidates to its Board of Directors.

#### **Agenda ITEM 6: Election of members of the Company's Internal Audit Commission**

##### Recommendation:

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

##### Position of the Board of Directors:

Under Clause 20.2. of the PJSC LSR Group Charter, the Internal Audit Commission shall be elected to comprise three members.

All candidates for the Internal Audit Commission are recognized professionals who use their business expertise and knowledge of accounting, finance, oversight of financial and business operations, and law to enable the Internal Audit Commission to carry out its tasks more effectively.

#### **Agenda ITEM 7: Approval of the Company's auditors for 2019**

##### Recommendation:

The Board of Directors recommends that shareholders approve LLC Audit-service SPb as the auditor for PJSC LSR Group's 2019 Financial Statements compiled in accordance with the Russian Accounting Standards.

##### Position of the Board of Directors:

LLC Audit-service SPb has been auditing the financial (accounting) statements of LSR Group enterprises since 1999.

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

LLC Audit-service SPb is a member of the Sodruzhestvo Association, a self-regulatory organization of auditors, abbreviated as SRO AAS (ORNZ 116060647).

In 2005, 2009, 2014, and 2016, following quality control of the Company's auditing activity and compliance with professional ethics, positive opinions were received from NP Russian Audit Chamber.

In 2014, a positive opinion was also received from the Federal Service for Fiscal and Budgetary Supervision (Rosfinnadzor) following quality control of the Company's auditing activity and compliance with professional ethics (No. 72-13-04/2752, dated 5 August 2014).

Following a scheduled on-site external inspection of the quality of audit and compliance with professional ethics, a positive opinion was received from the Federal Treasury Department for St. Petersburg (No. 7200-24-07/8625, dated 9 July 2018).

##### Recommendation:

The Board of Directors recommends that shareholders approve JSC KPMG as the auditor for the Company's consolidated financial statements for 2019 prepared in accordance with the IFRS.

##### Position of the Board of Directors:

JSC KPMG has been auditing the Company's consolidated financial statements in accordance with the IFRS since 2006. To uphold the principle of objectivity, JSC KPMG periodically rotates its audit teams.

JSC KPMG is a leading international audit firm, and one of the 'Big Four'. JSC KPMG provides services to a number of major Russian and international construction companies. These services include audit compliant to international and Russian standards, as well as tax, legal, general, financial, and business management consulting.

JSC KPMG is the largest audit firm in Russia according to rankings of the largest audit groups and networks on the basis of revenue from audit for 2009–2017 by RAEX (Expert RA).