

**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 9, 2017.**

ITEM 1 on the agenda: Approval of the Company's 2016 Annual Progress Report.

Recommendation:

The Board of Directors recommends that the shareholders approve the 2016 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 2016 Annual Accounting (Financial) Statements.

Recommendation:

The Board of Directors recommends that the shareholders approve the 2016 Annual Financial Statements of PJSC LSR Group.

Position of the Board of Directors:

The Board of Directors has reviewed the 2016 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 2016.

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, 2015, the results of its financial and business operations and its cash flows for 2016 in accordance with the RAS.

ITEM 3 on the agenda: Distribution of the Company's profits for the 2016 fiscal year.

Recommendation:

The Board of Directors recommends that the shareholders distribute the profits of PJSC LSR Group for the 2016 fiscal year as follows:

- to pay dividends on ordinary registered shares following the results of the 2016 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: 6/20/2017.

- 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 thirty-seven million eight hundred thousand (37,800,000) rubles.

For reference only (according to the Financial Statements of PJSC LSR Group as of 12/31/2016 prepared in accordance with the RAS):

Undistributed profits as of 12/31/2016	
that can be paid out as dividends	RUB 16,298,5086 thous.,
comprising:	
- net profits for 2016	RUB 7,427,821 thous.
Net profit amount to be paid out as dividends is	RUB 8,036,357 thous.

Position of the Board of Directors:

The Board of Directors has reviewed the production and financial results of PJSC LSR Group for 2016, 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 2016 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 12/31/2016, the net asset value of PJSC LSR Group amounted to RUB 42,597,515 thous., exceeding its authorized capital and reserve fund by RUB 42,570,469 thous.).

The Board of Directors does not therefore presume that the declaration or distribution of dividends for the 2016 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 nine (9).

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 nine (9) members is more optimal, including in terms of the qualification, experience, knowledge and business qualities of its members, and makes it possible to organize the work of the Board of Directors in the most efficient and effective way, in particular to establish 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;
2. Vitaly Grigorievich Podolsky;
3. Aleksandr Mikhailovich Prisyazhnyuk.

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 Sergeevna Klevtsova, Lyudmila Valeryevna Fradina and Irina Anatolyevna Sharapova.

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: Selection of the Company's auditors for 2017.

Recommendation:

The Board of Directors recommends that the shareholders resolve that the auditor for PJSC LSR Group's 2017 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.

Recommendation:

The Board of Directors recommends that the shareholders resolve that the auditor for the Company's 2017 Consolidated Financial Statements prepared in accordance with the IFRS be JSC KMPG.

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 KMPG rotates its audit teams from time to time.

JSC KMPG is one of the leading international audit firms known as the “Big 4”. JSC KMPG 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.

ITEM 8 on the agenda: Approval of the Company’s revised Charter.

Recommendation:

The Board of Directors recommends approving the revised Charter of PJSC LSR Group.

Position of the Board of Directors:

The approval of the revised Charter of PJSC LSR Group is due to bringing it norms into conformity with the changes in the laws of the Russian Federation.

ITEM 9 on the agenda: Approval of the revised Regulation on the Company’s Board of Directors.

Recommendation:

The Board of Directors recommends approving the revised Regulation on the Company’s Board of Directors of PJSC LSR Group.

Position of the Board of Directors:

The approval of the revised Regulation on the Company’s Board of Directors of PJSC LSR Group is due to bringing its norms into conformity with:

- the changes in the laws of the Russian Federation;
- recommendations of the Bank of Russia (Letter No. IN-015-52/66 of 9/15/2016)
- planned changes in the Listing Rules of Moscow Exchange.

ITEM 10 on the agenda: Approval of the revised Regulation on General Meeting of the Company’s Shareholders.

Recommendation:

The Board of Directors recommends approving the revised Regulation on General Meeting of the Company’s Shareholders of PJSC LSR Group.

Position of the Board of Directors:

The approval of the revised Regulation on General Meeting of the Company’s Shareholders of PJSC LSR Group is due to bringing its norms into conformity with the changes in the laws of the Russian Federation.

ITEM 11 on the agenda: Approval of transactions in the cases provided for in Article 83 of the Federal Law “On Joint-Stock Companies”.

Recommendation on transactions with PJSC Sberbank.

The Board of Directors recommends that shareholders approve the interested party transactions, namely, entering into the following agreements with PJSC Sberbank:

- the Contract of Guarantee and the Additional Agreement thereto in relation to the obligations of the subsidiary company LLC LSR-Stroy;
- the Contract of Guarantee and Agreement for Subsequent Pledge of Participatory Share in relation to the obligations of the subsidiary company LLC LSR. Wall.

Recommendation on the transaction with JSC Russian Agricultural Bank.

The Board of Directors recommends that shareholders approve the interested party transactions, namely, entering into 4 Contracts of Guarantee with JSC Russian Agricultural Bank in relation to the obligations of the subsidiary company JSC LSR. Real Estate-M.

Position of the Board of Directors:

The Guarantee Agreement is entered into by and between PJSC Sberbank and LLC LSR-Stroy in order to provide the Advance Payment Guarantee under the Contracting Agreement entered into with Limited Liability Company Transport Concession Company (LLC TCC) in relation to construction of tramway system in the Krasnogvardeysky District of Saint Petersburg.

Agreement for Opening Credit Line is entered into by and between PJSC Sberbank and LLC LSR. Wall in order to refinance incurred expenses associated with acquisition of real and personal property due to moving Aeroc plant to the aerated concrete production site located in Sertolovo Leningrad Region. The plant is moved in the context of the planned withdrawal of industrial enterprises from the center of Saint Petersburg to the nearest suburbs.

The Credit Agreements are entered into by and between JSC Russian Agricultural Bank and LLC LSR. Real Estate-M in order to cover the current deficit within financing of the investment phase of new construction projects.