

Open Joint Stock Company LSR Group

APPROVED:

**General Meeting of Shareholders
OJSC LSR Group**

_____ 2015
Minutes No. _____ Date: _____ 2015

PRELIMINARILY APPROVED BY:

Board of Directors of OJSC LSR Group

_____ 2015
Minutes No. _____ Date: _____ 2015

ANNUAL REPORT for 2014

Chief Executive Officer _____

Aleksandr Vakhmistrov

Chief Accountant _____

Yulia Reshetnikova

L.S.

Statement of the Chairman of the Board of Directors

Dear shareholders,

2014 was a very successful year for LSR Group. Apart from the strong fundamental demand for housing due to the low housing stock per capita and a large stock of obsolete housing, 2014 saw the additional feverish demand resulted from the instability of financial and currency markets. In such circumstances customers in Russia traditionally treat real estate as a safe harbor for their savings. In most cases they prefer large homebuilders with an immaculate reputation which can guarantee delivery of property, work strictly in the accordance with the Federal law 214 and offer a wide range of high-quality real estate in all price segments and various districts of the city. LSR Group is definitely one of such companies. And we were pleased to see that customers were choosing our projects.

A sharp increase in the demand for residential real estate allowed the company to achieve record sales figures. More than 1 million square metres of real estate was sold, up 35% year-on-year. In terms of value, housing sales grew by 43%. Our construction subsidiaries transferred to the customers almost 1 million square metres of prefab housing, up 15% year-on-year. We also increased sales of crushed granite, ready-mixed concrete, cement, brick, and aerated concrete.

The auction for the right to redevelop the territories of the automotive plant named after I. A. Likhachev (ZiL) in Moscow with a total area of 65 hectares was a milestone event for the company. As a part of this project LSR Group will build about 1.5 million square metres of real estate, including housing, offices, commercial premises and parking facilities. By winning this auction the company once again proved its leading positions in the Russian construction market. Taking into account the territories of ZiL, our portfolio of real estate development projects amounts to approximately 10 million square metres.

At the end of the year we sold our cement plant in Slantsy, the Leningrad region. This transaction allowed the company to reduce its debt significantly and dispose of loans denominated in foreign currency which represented certain financial risk for the company.

Despite the complex economic situation we are optimistic about the future. While in general the demand for real estate in the market will possibly decrease in 2015 it will be divided between a few large and reliable companies with a solid financial position and which can guarantee the timely delivery of real estate to their customers. Thus, we can expect even more customers at our real estate sales offices. We are also sure that large infrastructure projects funded from the federal and regional budgets will not be suspended and will require large volumes of building materials. Being one of the top producers of building materials in Russia and the largest producer of certain building materials in the North-West Federal District, we will definitely be able to ensure high utilisation of our production capacities.

I wish everyone fruitful work and success!

Chairman of the Board of Directors
Andrey Molchanov

Statement of the Chief Executive Officer

Dear shareholders,

In 2014, the company recorded the impressive sales results, strengthened its positions in the key markets, significantly expanded the scope of its operations in the Moscow region due to the acquisition of new projects, and secured its financial position due to the sale of the cement plant at the end of the year.

The previous year was especially successful for the company's real estate development business. We entered into new contracts for the sale of more than 1 million square metres, up 35% year-on-year. The total value of the contracts was RUB 86 billion, up 43% against 2013. The share of mortgage contracts was 35%. In 2014, we completed 790 thousand square metres of net sellable area, up 163% against 2013. The deliveries to be recognised in the company's revenues for 2014 amounted to 775 thousand square metres.

It is worth to mention that we were awarded 9 contracts with the government of St. Petersburg for the sale of 1,653 apartments with a total area of 94 thousand square metres. The value of the contracts stands at RUB 5.2 billion. All apartments are located in our project Novaya Okhta and scheduled for completion before December 31, 2015.

In accordance with the strategy of expanding the scope of the company's business in the Moscow region we considerably increased the portfolio of real estate development projects in Moscow and the Moscow region which now includes ZiL redevelopment project, Donskoy Olimp business class residential project, New Domodedovo and Nakhabino Yasnoye mass market residential projects, as well as a new residential project in Solntsevo.

In 2014, our construction subsidiaries in St. Petersburg, Moscow and Yekaterinburg transferred to the customers 990 thousand square metres of prefab housing, up 15% against 2013. The highest growth rate was achieved in the Moscow region - 59% year-on-year.

In our building materials business the key event was the sale of our cement plant in Slantsy, the Leningrad Region. The deal was a part of LSR Group's strategy aimed to focus on projects with the highest returns on invested capital and the fast growing real estate development business thus maximising value for our shareholders. The positive effect of the disposal is to be reflected in the company's IFRS accounts for 2014. It should also be noted that during 2014 we sold 1.5 million tonnes of cement.

Our business units, involved in the production of aggregates and ready-mix concrete, sold 7.3 million cubic metres of crushed granite, 1.6 million cubic metres of ready-mix concrete and 8.4 million cubic metres of sand in 2014. Sales of reinforced concrete amounted to 319 thousand cubic metres.

The year of 2014 was very successful for our brick and aerated concrete business. We sold 334 million bricks, up 70% year-on-year. Sales of aerated concrete grew by 12% to reach 1.4 million cubic metres. We are proud that LSR Group was the first company to start mass production of clinker bricks in Russia.

We are satisfied with the results achieved in 2014 and enter the new year with confidence. We believe that 2015 will become the year of large and strong companies.

CEO and Chairman of the Executive Committee
Aleksandr Vakhmistrov

Brief history of the Company

OJSC LSR Group was created on 14 August 2006 as a result of the reorganization of LLC LSR Group in the form of conversion and is its lawful successor.

The company investment business began in 1993 with the acquisition of Stroydetal' plants, specialised in manufacturing of reinforced concrete items and ready-mix concrete production. Then, companies of a construction complex, engaged in development, construction, and production of building materials, were consecutively acquired and created.

LSR Group is a publicly traded company. Its global depository receipts (GDRs) are traded on the London Stock Exchange, and its ordinary shares are traded on MICEX-RTS. In 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. LSR Group raised USD 588 million (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 million.

In recent years, the company has moved from being a leader of the regional market of St. Petersburg and the Leningrad Region to become one of the largest diversified Russian business structures, extending its activity to different regions of Russia and nearby countries.

The main part of the company's business is concentrated in St. Petersburg and the Leningrad Region: all kinds of real estate development and construction - from mass market housing to elite residential projects, built according to the designs of leading domestic and foreign architects.; extraction and production of aggregates (sand, crushed granite); production of building materials (bricks, cement, reinforced concrete, ready-mixed concrete, aerated concrete); and crane rental and pile driving services. Most of the products and services of LSR Group occupy leading positions in domestic region.

The Moscow real estate and building materials market is the largest in Russia and therefore one of the first priorities for the company's growth. LSR Group has operated on the Moscow real estate market since 2001. Currently, the company is represented in Moscow and the Moscow Region by its subsidiaries operating in the areas of residential and commercial property development, and the production of reinforced concrete items for pre-fabricated construction, manufacturing of bricks, and load-lifting services.

Yekaterinburg is the most significant city in the Ural Federal District, which is an industrial, transport, business and cultural centre, the 4th largest city in Russia, and one of the largest real estate markets in the country. LSR Group entered Yekaterinburg market at the end of 2007, and completed the acquisition of key assets in 2008.

In the Urals Region, LSR Group follows a safe business strategy, implementing a vertically-integrated business model, proven to be effective in St. Petersburg and the Leningrad Region, as well as in Moscow and the Moscow Region. LSR Group in the Urals Region is primarily engaged in development and construction of mass series real estate.

In Ukraine LSR Group strives to achieve a leading position in production of aerated concrete. 2 plants of our Group are operating in the Kiev Region - in Berezan and Obuhovo. Today LSR Group is one of the largest manufacturers and suppliers of aerated concrete in Ukraine.

European office of LSR Group has operated in Munich since 2003 - LSR. Europe carries out real estate development projects in Germany and administers contracts with foreign producers of equipment supplied to other subsidiaries of LSR Group.

In 2010 the Company has developed and implemented new business approaches which led to structural changes, integration and consolidation of business units engaged in manufacturing of building materials, of building contractors and real estate development companies. Unified standards of project management were established in new consolidated business units.

An important stage in LSR Group development was completed in 2013 with an ambitious programme of modernisation of pre-fabricated housing construction factories. The goal of the programme was to increase production capacity and labour efficiency, reduce cost and energy consumption, improve product quality, and speed up the equipment reconfiguration for product range diversity. All reforms are based on the best foreign practices, cutting-edge Russian and European technologies.

In recent years in all regions of operations LSR Group has been actively engaged in expansion of its land bank and entered into a number of investment projects on favourable terms. Moreover, LSR Group implemented a large scale programme aimed to improve efficiency of our land assets in St.

Petersburg. The programme implies relocation of the existing manufacturing facilities from the land plots suitable for residential development to industrial zones. Today enterprises of LSR Group are concentrated in such a way that three modern, high-tech clusters were formed: in Gatchina - production of reinforced concrete items, in Nikolskoye and Kolpino - production of bricks and aerated concrete and in Parnas - pre-fabricated housing construction factory. The land plots relieved from manufacturing facilities are used for residential real estate development..

All areas of the Company's business complement each other, providing a significant synergetic effect. Well-adjusted interaction mechanisms allow Group's subsidiaries to comprehensively satisfy client needs, simultaneously reducing their operating costs and allowing them to rapidly respond to the changing trends of construction industry.

Business structure of the Company

Business units of LSR Group are formed according to the product principle, for example, LSR. Construction, LSR. Real Estate, LSR. Reinforced Concrete.

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

Business structure of LSR Group

Real Estate	Construction	Building materials
LSR. Real Estate - North-West	LSR. Construction - North-West	LSR. Aggregates and Ready-mix Concrete - North-West
LSR. Real Estate - Moscow	LSR. Construction - Moscow	LSR. Bricks and Aerated Concrete - North-West
LSR. Real Estate - Urals	LSR. Construction - Urals	LSR. Bricks - Moscow
LSR. Europe	LSR. Project Management	LSR. Reinforced Concrete - North-West
	LSR. Tower Cranes	

Company's position in the industry and its core businesses.

LSR Group is a diversified vertically integrated holding company and one of the leading players in Russia's construction industry.

The company's core businesses include real estate development, construction and production of building materials.

The company's business is concentrated in three largest regions of Russia: Saint-Petersburg and the Leningrad region, Moscow and the Moscow region, Yekaterinburg and the Sverdlovsk region. Our business units are engaged in the following business areas:

- real estate development;
- construction of pre-fabricated housing;
- contractor, general contractor, and engineering services in industrial and civil construction;
- production of reinforced concrete items for residential, commercial, and industrial construction;
- production of aerated concrete;
- production and delivery of ready-mix concrete and concrete mixes;
- production and sale of high-quality ceramic brick of all types, mining of Cambrian clay;
- production of crushed granite, mining of sea sand, mining and delivery of quarry sand;
- providing of transportation and tower crane services.

Residential construction market

The year of 2014 saw record housing completions in Russia. According to the preliminary data, 81 million square metres of housing were built, up 15% year-on-year. Rosstat data show the increased construction volumes in all regions of the company's presence.

The demand for residential real estate in Russia is based upon a number of fundamental factors, including the insufficient housing stock per capita and the large stock of obsolete housing. However, an additional feverish demand, caused by the instability of the financial and currency markets, was observed in 2014. In such circumstances customers in Russia traditionally treat real estate as a safe harbor for their savings. According to a survey of the Russian Public Opinion Research Center (VCIOM), carried out in December 2014, half of those surveyed consider housing acquisition to be the most reliable means of investing their money. 33% of respondents stated that they were saving or intended to save money to buy housing.

Second half of the year saw a sharp increase of the demand for housing driven by the weakening rouble. Households that planned to acquire housing were forced to make investment decisions much faster. Russians who had savings in foreign currency could proceed to the purchasing stage immediately due to the devaluation of rouble.

Mortgage lending was a key driver of housing demand during the year. Domestic real estate developers claimed an average share of mortgage sales was approximately 40%, and for certain projects it was peaking up to 80%. In January - November 2014 domestic banks issued 879 thousand loans worth RUB 1.5 trillion, up 22% in terms of the number of loans and up 30% in terms of their value. The weighted average rate for the loans denominated in roubles was 12.4% (–as compared to 12.5% in January-November 2013), for the loans denominated in foreign currency - 9.3% (–as compared to 9.6% in January-November 2013).

In December 2014, the Board of Directors of the Bank of Russia decided to raise the key interest rate from 10.5% to 17% starting from December 16, 2014. The measure is aimed to limit the risks of depreciation and inflation. This decision immediately affected the mortgage lending market. Within a week, two of the most important players controlling more than 70% of the national mortgage lending market raised mortgage rates: Sberbank up to 14.5-16% and VTB-24 up to 14.95%-15.95%. Commercial banks increased the borrowing rates to a level of 17-20%.

In the long term perspective, the key drivers of the construction market in Russia will remain as follows:

- high demand for housing due to the insufficient housing stock per capita and poor condition of the existing stock;
- economic growth and the associated growth of personal income;
- development of mortgage lending market.

Building materials market

According to the data released by Rosstat and CMPRO, in 2014 production of ceramic bricks amounted to 7.4 billion units, up 2.9% year-on-year. Production of reinforced concrete items was 26.8 million cubic metres, up 0.9%, production of aerated concrete increased by 13.2% to 9.1 billion units, production of ready-mixed concrete grew by 5.9% and reached 30.1 million cubic metres, production of cement grew by 3% to 68.5 million tonnes, and production of aggregates reached 381.6 million cubic metres. (+0.2%)

The volume of import was gradually decreasing during the year. In particular, in January-November 2014 the import of aggregates to Russia decreased by 7.3% to 18.5 million cubic metres., and the import of cement decreased by 3.4%, to 4.6 million tonnes.

In the Northwest Federal District in January-November 2014, according to the Rosstat and CMPRO, production of reinforced concrete items decreased by 3%, to 2.1 million cubic metres, production of bricks increased by 21% and reached 591 million units, production of cement decreased by 8.6% to 4.2 million tonnes, production of aggregates amounted to 77.5 million cubic metres (- 5.2%), production of ready-mix concrete grew by 8.9% and reached 3.8 million cubic metres. The decline in the consumption of aggregates was primarily due to the completion of the active phase of several major infrastructure development projects, and also the delay of several projects, including the land reclamation project in Saint-Petersburg and the construction of the Federal motorway M11.

Assessment of the Company's business results within the industry and their correspondence to the industry trends

Real estate development

The year of 2014 was especially successful for the company's real estate development business. During the reported year, in all regions of our operations we entered into new contracts for the sale of 1,019 thousand square metres (+35%). The total value of the contracts for the sale of real estate was RUB 86bn, up 43% against 2013.

In 2014, we launched a number of attractive projects to the market which partially determined successful results of the company's real estate development business units. In particular we started pre-sales of almost 1.1 million square metres of real estate in St. Petersburg, the Moscow region, and Yekaterinburg, up 12% against 2013.

In accordance with the strategy of expanding the scope of the company's business in the Moscow region we considerably increased the portfolio of real estate development projects in Moscow and the Moscow region. In particular, in April 2014, we won the auction for redevelopment of the industrial areas of the ZiL plant in Moscow with a total area of 65 ha. It is planned to build 1.5 million square metres of housing there. Also, in August 2014, we acquired new residential project in Soltsevo district of Moscow with a total area of 990 thousand square metres.

In 2014 we actively expanded portfolio of our projects in Saint-Petersburg. In April 2014, we acquired a large land plot of 175 ha on the territory of the former "Rzhevka" airfield near St.Petersburg to build around 1 million square metres of housing. In July 2014, as a part of the company's large-scale programme for the redevelopment of land assets occupied by industrial enterprises we acquired rights for the land plots with a total area of 4 hectares on Oktyabrskaya embankment in St. Petersburg. These land plots are located next to our mass market residential project "Oktyabrskaya Naberezhnaya" (55 hectares, 558,900 square metres). Due to this purchase, the total area of the project will be increased to 650,000 square metres.

It is worth to mention that we were awarded 9 contracts with the government of St. Petersburg for the sale of 1,653 apartments with a total area of 92 thousand square metres. The value of the contracts stands at RUB 5.2 billion. All apartments are located in our project Novaya Okhta, scheduled for completion before December 31, 2015 and will be transferred to the government in June 2016.

Building materials

In 2014 in all regions of operations, LSR Group's business units engaged in the production of building materials sold 7.3 million cubic metres of crushed granite, 8.4 million cubic metres of sand, 1.6 million cubic metres of ready-mixed concrete, 1.5 million tonnes of cement, 1.4 million cubic metres of aerated concrete, 319 thousand cubic metres of reinforced concrete items, and 334 million bricks.

In February 2014 we marketed the first Russian façade clinker brick. The mass production of high-strength facing ceramic material began at the brick plant of LSR. Bricks and Aerated Concrete North-West business unit in the city of Nikolskoye, the Leningrad region. LSR Group is the first and the only mass producer of clinker brick in Russia. A new line for production of clinker bricks with a capacity

of about 25 million units per year was launched in the summer of 2013. Before that there was only imported clinker present on the Russian market.

In December 2014 we sold our cement plant in Slantsy, the Leningrad region. This deal is part of implementation of LSR Group strategy to focus on projects with highest returns on invested capital and fast growing real estate development business thus maximizing value for shareholders. LSR Group used most of the proceeds to reduce its debt and make it 100% ruble based as of the end of the reported year.

Results of the Company

In 2014, LSR Group demonstrated the following operating results.

REAL ESTATE DEVELOPMENT

	2013	2014	Change, %
New contract sales, th. m ²	753	1,019	35%
Completions, th. m ²	301	790	163%
<i>Real estate in St. Petersburg</i>			
New contract sales, th. m ²	529	715	35%
<i>Elite real estate</i>	76	89	17%
<i>Mass market real estate</i>	452	626	38%
<i>to retail customers</i>	452	531	17%
<i>under contracts with the government</i>	-	95	-
Completions, th. m ²	177	446	152%
<i>Elite real estate</i>	27	83	213%
<i>Mass market real estate</i>	150	363	141%
<i>Real estate in Moscow</i>			
New contract sales, th. m ²	104	145	40%
Completions, th. m ²	-	217	-
<i>Real estate in Yekaterinburg</i>			
New contract sales, th. m ²	120	158	31%
Completions, th. m ²	124	127	2%

Notes: The operating results in this table are rounded to whole numbers in thousands square metres, while all the calculations are based on the full figures.

In 2014, in all regions of our operations we entered into new contracts for the sale of 1,019 thousand square metres (+35%). The total value of the contracts for the sale of real estate was RUB 86bn, up 43% against 2013. The share of mortgage contracts was 35%. In 2014, we completed 790 th. m² of net sellable area (+163%). The deliveries to be recognised in the company's real estate development revenue for 2014 amounted to 775 thousand square metres, including the net sellable area completed within the reported period and pre-sold/sold either within the reported period or in previous years along with the net sellable area completed in previous years but sold within the reported period.

Real Estate in St. Petersburg

In 2014, in St. Petersburg, we entered into new contracts for the sale of 715 thousand square metres of net sellable area (+35%). The total value of the contracts was RUB 63.8bn (+39%). In 2014, we completed 446 thousand square metres of net sellable area (+152%). The deliveries to be recognised in the company's revenue for 2014 amounted to 436 thousand square metres.

In the elite segment, we entered into new contracts for the sale of 89 thousand square metres of net sellable area (+17%). The total value of the contracts was RUB 15.6bn (+30%). In 2014, we completed 83 thousand square metres of net sellable area (+213%) in Europe City, Paradny Quarter and Smolny Park projects. The deliveries to be recognised in the company's revenue for 2014 amounted to 70 thousand square metres.

In the mass market segment, we entered into new contracts for the sale of 626 thousand square metres (+38%). The total value of the contracts was RUB 48.2bn (+43%). In 2014, we completed 363 thousand square metres of net sellable area (+141%) in Antey, Kalina Park, VIVA, Novaya Okhta, Sophia, Aurora and Pulkovsky Posad projects. The deliveries to be recognised in the company's revenue for 2014 amounted to 365 thousand square metres.

In December 2014, we entered into 9 government contracts for the sale of 1,653 apartments with a total area of 94 thousand square metres. The value of the contracts amounted to RUB 5.2bn. All apartments are located in our project Novaya Okhta and scheduled for completion before 31 December 2015. The apartments will be transferred to the government in June 2016.

Real Estate in Moscow

In 2014, we entered into new contracts for the sale of 145 thousand square metres of net sellable area, up 40% on our sales in 2013. The total value of the signed contracts was RUB 12.9bn (+74%). In 2014, we completed 217 thousand square metres of net sellable area in New Domodedovo and Nakhbino Yasnoye projects. The deliveries to be recognised in the company's revenue for 2014 amounted to 207 thousand square metres.

Real Estate in Yekaterinburg

In Yekaterinburg, we entered into new contracts for the sale of 158 thousand square metres of net sellable area (+31%). The total value of the contracts signed in 2014 was RUB 9.2bn (+31%). In 2014, we completed 127 thousand square metres of net sellable area (+2%) in Kalinovskiy, Serebryanaya podkova, Michurinsky and Berezovaya Roshcha projects. The deliveries to be recognised in the company's revenue for 2014 amounted to 132 thousand square metres.

CONSTRUCTION

	2013	2014	Change, %
Construction transferred to customers th. m ²	862	990	15%
St. Petersburg	546	586	7%
Moscow*	162	258	59%
Yekaterinburg*	155	147	(5%)

Notes: The operating results in this table are rounded to whole numbers in thousands square metres, while all the calculations are based on the full figures.

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

Construction

In 2014, our subsidiaries in St. Petersburg, Moscow and Yekaterinburg transferred to the customers 990 thousand square metres of prefabricated buildings (+15%).

BUILDING MATERIALS

Product	2013	2014	Change, %
Crushed granite, th. m ³	7,174	7,270	1%
Sand, th. m ³	10,001	8,397	(16%)
Ready-mix concrete, th. m ³	1,497	1,613	8%
Reinforced Concrete, th. m ³	399	319	(20%)
Cement, th. tonnes	1,305	1,531	17%
Bricks, million units	196	334	70%
Aerated concrete, th. m ³	1,207	1,355	12%

Notes: The operating results in this table are rounded to whole numbers, while all the calculations are based on the full figures.

Crushed Granite

In 2014, our crushed granite sales were 7.3m m³ (+1%).

Sand

Sand sales in 2014 were 8.4m m³ (-16%).

Ready-Mix Concrete

In 2014, ready-mix concrete sales were 1.6m m³, up 8% against 2013.

Reinforced Concrete

In 2014, we sold 319 thousand m³ of reinforced concrete items, down 20% against our sales in 2013.

Cement

In 2014, we sold more than 1.5m tonnes of cement, up 17% against 2013.

Bricks

In 2014, our bricks sales amounted to 334 million units, up 70% on our sales in 2013.

Aerated Concrete

Aerated concrete sales amounted to 1.4m m³ in 2014 (+12%).

The Board of Directors considers business results of LSR Group for the year 2014 to be generally successful.

Basic financial indicators of the Company

Indicator	Recommended method of calculation	as of 31.12.2013	as of 31.12.2014
Total debt to equity	(Non-current liabilities + Current liabilities)/Equity and provisions	0.64	0.74
Net profit margin, %	(Net profit/Revenue) x 100	67%	42%
Asset turnover, times	Revenue/Book value of assets	0.17	0.16
Return on assets, %	(Net profit/Book value of assets) x 100	11.6%	6.7%
Return on equity, %	(Net profit/Equity and provisions) x 100	19.0%	11.6%
Net working capital, RUB th	Current assets - Non-current receivables - Current liabilities (exclusive of deferred income)	1,053,442	19,307,305
Current ratio	(Current assets - Non-current receivables) / (Current liabilities (exclusive of deferred income))	1.05	4.83
Quick ratio	(Current assets - Inventories - Deferred VAT - Non-current receivables) /(Current liabilities (exclusive of deferred income))	1.05	4.83

Note: All indicators are calculated on the basis of unconsolidated 2014 RAS-based financial statements of LSR Group.

Total debt to Equity is a measure of a company's financial leverage. In 2014 this coefficient increased from 0.64 to 0.74.

Net profit margin characterizes the profitability level and makes up 42% in 2014 against 67% in 2013. Net profit margin of LSR Group reduced in 2014 due to increase in other expenses mainly because of contributions to the capital of subsidiaries made in 2014.

Asset turnover changed insignificantly and amounted to 0.16 times, i.e., each rouble of assets brought 0.16 roubles of revenue. Return on assets amounted to 6.7% in 2014 against 11.6% in 2013. Return on assets decreased due to reduction in net profit margin.

Return on equity shows the effectiveness of the use of equity. This coefficient also decreased from 19% to 11.6%.

The optimum net working capital is determined in accordance with the needs of the company and depends on the scales and characteristics of its business, rate of turnover of inventories and receivables, on the terms of acquiring loans, on industry specifics and market conditions. Both surplus and shortage of net working capital negatively affect the financial position of the company. Surplus of net working capital above the optimum requirement is indicative of the ineffective use of resources. A shortage of net working capital is indicative of the incapacity of the company to pay off its current liabilities in timely fashion and can lead to bankruptcy. Net working capital at the end of 2014 substantially increased against the end of 2013, and amounted to 19 billion roubles. The increase was due to a change in the structure of liabilities with an increase of the share of non-current liabilities.

The liquidity coefficients demonstrate the company's capacity to pay off current liabilities. Current ratio shows if the company has sufficient means to pay off current liabilities (in particular, accounts payable). Quick ratio is the ratio of the most liquid assets of the company and receivables to current liabilities. This coefficient reflects the company's capacity to pay off liabilities in a timely fashion. These indices show that LSR Group can rapidly pay off its liabilities with own funds.

Company development prospects

The principal drivers of the Company's business growth in the coming years will include real estate development and residential construction in the mass market segment, as well as the production of the principal building materials.

We are also anticipating a substantial boost to business efficiency in the production of bricks and aerated concrete due to an expansion of the product range and lower operating expenses of the new brick plants.

We are planning to develop and consolidate the Company's positions on the target markets by means of:

- Using and advancing LSR Group's unique competitive advantage, the system of vertically integrated companies providing conditions for reliable constant control over the key elements of the manufacturing chain, from production of building materials to construction and to the sales of ready real estate.
- Obtaining financing on more attractive terms compared to the key competitors within the industry due to the use of a broad spectrum of financial instruments, its further expansion, maintaining a positive credit history, and large scale of business.
- Diversifying the commercial policy by orientation not only on private customers, but also on the growing and fairly stable public procurement sector.
- Achieving economy of scale due to a large market share and exploiting this advantage in the relationships with the suppliers and customers.
- Improving the quality of the products (work and services offered), and expanding their range within our portfolio strategy.
- Establishing and boosting the image of LSR Group as an integrated and stable company adhering to uniform business standards.

The plans of LSR Group's subsidiaries engaged in real estate development and construction sectors:

We are planning a further increase in the vertical integration between real estate development and construction in order to reduce the production costs, shorten the project implementation time, and increase the end product margin. In construction, we are planning to utilise the advantages of our pre-fabricated housing factories by optimising and standardising the processes of design, production and performance of construction and assembly work, bringing the implementation of real estate development projects to the level of pre-fabricated construction.

In the real estate development sector, we shall utilise our competitive advantage based on the integration with the construction sector and optimal sizing of our land bank, which, among others, will include the plots made available by the planned optimisation (relocation and modernisation) of our industrial facilities.

All of the above will allow us to market residential housing of the right quality, in the required volume, and within the specified time frames, as well as provide a more flexible and quicker response to possible changes in the demand.

The plans of LSR Group's companies operating in the building materials sector:

Our further development in the building materials sector will be based on bringing the new facilities to their design production capacity, improving production efficiency, and reducing the costs by using state-of-the-art technologies and equipment, implementing the best practices in process control, expanding the volume of mineral deposits that we will exploit, and developing new markets for our products.

We are also envisioning a further synergistic effect from the consolidation of the business units and optimisation of the management system conducted in 2012-2014.

The growth of our building materials business will primarily be provided by the reduction of operating and administrative expenses along with improving the quality and expanding the range of some product lines and increasing or maintaining the market share of other products.

The stability in the building materials sector will be maintained, among other factors, by the intra-group consumption of a number of primary products such as sand, and crushed granite, as well as by the

economy of scale due to our simultaneous presence on multiple associated product markets, allowing us to develop an integrated product sales program for further development of the construction industry.

Information on the Company's use of energy resources in the reporting year

Type of energy resource	Consumption, (in physical terms)	Consumption, (in monetary terms)
Electric power	~ 457 million kWh	~ 1,138 million roubles
Automotive gasoline	~ 1.8 million litres	~ 48 million roubles
Diesel fuel	~ 46 million litres	~ 1,220 million roubles

Consolidated data for all subsidiaries of LSR Group. Other forms of energy resources were not used in 2014.

Corporate governance

In our practices of corporate governance we adhere to the provisions of the legislation of the Russian Federation related to corporate governance as well as international standards applicable to public companies listed on the London Stock Exchange.

Corporate governance structure

The system of corporate governance of OJSC LSR Group includes:

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

This report presents the composition of the management bodies of the company as of December 31, 2014.

General Meeting of Shareholders;

The General Meeting of Shareholders (hereinafter - the Meeting) is the superior management body of OJSC LSR Group.

The annual Meeting is conducted once a year, not earlier than 2 months and not later than 6 months after the end of the fiscal year. Meetings, conducted in addition to the annual one, are extraordinary and are conducted according to the decision of the Board of Directors on the basis of its own initiative, request of the Internal Audit Commission, the company auditor, and also shareholders who are owners of not less than 10% of voting shares on the date of the presentation of the request.

The shareholders (shareholder), who are (is) in totality owners of not less than 2% of voting shares of the Company have the right to introduce questions into the agenda of the annual Meeting, and also to advance candidates for election to the Board of Directors and Internal Audit Commission of the Company, the number of which cannot exceed the quantitative composition of the relevant body. Such proposals must be submitted to the Company not later than 60 days after the end of the fiscal year.

The procedure for conducting the meeting is established by the Regulation on the General Meeting of the shareholders of the Company.

Communication about conducting the meeting is posted on the Company's website www.lsrgroup.ru not later than 30 days prior to the date of conducting the Meeting.

A Meeting is competent (it has a quorum), if the shareholders, who possess in totality more than half of the votes of the placed voting shares of the Company, participated in it.

Voting at the Meeting is performed according to the "one share - one vote" principle, if not otherwise provided by Federal Law. The elections of the members of the Board of Directors of the Company are made by cumulative voting, during which the number of votes, which belong to each shareholder, is multiplied by the number of people, who must be elected into the Board of Directors, and a shareholder has the right to give the votes thus obtained completely for one candidate or to distribute them between two and more candidates.

In 2014, the company held one General Meeting of Shareholders.

The Annual Meeting of OJSC LSR Group on the results of 2013 was held on June 20, 2014 in Saint-Petersburg (minutes No. 1/2014 of 20/06/2014). Shareholders who possess 75.39% of the placed voting shares of the Company participated in it.

The Annual Meeting confirmed the annual report of the Company, the annual accounting report, distribution of profit according to the results of 2013, declared dividends, elected members of the Board of Directors and Internal Audit Commission, confirmed auditors approved to audit RAS-based and IFRS-based financial statements of the Company, and confirmed the revised Company's Charter, Regulations on the Board of the Directors of the Company, and Regulations on the General Meeting of Shareholders of the Company .

Board of Directors

The Board of Directors is the administrative body of the Company responsible for general management of the Company's business, except for the issues assigned by the Federal Law and the Company's Charter to the competence of the General Meeting of Shareholders.

Meetings of the Board of Directors may be convened by the Chairman of the Board of Directors at his 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, submitted in written form indicating the reasons for convening the meeting.

The order of convening and holding meetings of the Board of Directors is determined by the internal document of the Company - the Regulation on the Board of Directors.

The members of the Board of Directors are elected by the Annual or an Extraordinary Meeting in the order provided by the Federal Law for the period until the Annual Meeting. The Board of Directors is comprised of 9 members.

A meeting of the Board of Directors is considered quorate, if not less than 50% of the elected members of the Board of Directors participate in it. Decisions at a meeting of the Board of Directors are made by the simple majority of the votes of the members participating in the session. For certain issues, the Charter requires a larger quorum, and also a larger number of votes, necessary for making a decision.

Membership of the Board of Directors

In the current year, the composition of the Board of Directors changed once: according to the results of the Annual General Meeting of Shareholders, which took place on 20 June 2014.

Membership roster of the Board of Directors of the Company from 01.01.2013 through 20.06.2014:

Name	Position on the Board of Directors	Independent	Audit Committee	Human Resources and Compensations Committee	Strategy and Investment Committee
Kirill Androsov	Member of the Board of Directors	Yes	Member of the committee	Chairman of the committee	
Ilgiz Valitov	Member of the Board of Directors	Yes			
Dmitri Gontcharov	Member of the Board of Directors	No			
Andrey Molchanov	Chairman of the Board of Directors	No			Chairman of the committee
Mikhail Romanov	Member of the Board of Directors	No			
Sergey Skaterschikov	Member of the Board of Directors	Yes	Chairman of the committee	Member of the committee	Member of the committee
Mark Temkin	Member of the Board of Directors	Yes	Member of the committee	Member of the committee	Member of the committee
Elena Tumanova	Member of the Board of Directors	No			Member of the committee
Olga Sheikina	Member of the Board of Directors	No			

Membership roster of the Board of Directors of the Company from 20.06.2014 through 31.12.2014:

Name	Position on the Board of Directors	Independent	Audit Committee	Human Resources and Compensations Committee	Strategy and Investment Committee
Ilgiz Valitov	Member of the Board of Directors	No			
Aleksandr Vakhmistrov	Member of the Board of Directors	No			
Dmitri Gontcharov	Member of the Board of Directors	No			Member of the committee
Yury Kudimov	Member of the Board of Directors	Yes	Chairman of the committee	Chairman of the committee	Member of the committee
Andrey Molchanov	Chairman of the Board of Directors	No			Chairman of the committee
Yury Osipov	Member of the Board of Directors	Yes	Member of the committee	Member of the committee	Member of the committee
Sergey Skaterschikov	Member of the Board of Directors	Yes			Member of the committee
Elena Tumanova	Member of the Board of Directors	No	Member of the committee	Member of the committee	
Olga Sheikina	Member of the Board of Directors	No			

Membership of Board members in the committees of the Board is indicated as of the ending date of the reporting period.

Biographic summaries of the members of the Board of Directors

Ilgiz Valitov

Member of the Board of Directors,
Member of the Board of Directors since June 2009.
Born in 1964.

Graduated from Kazan Finance and Economics Institute.

In the period from 2007 to 2010, Director, Department of Regional Development, Bank for Development and Foreign Economic Affairs (Vneshekonombank) State Corporation; from 2010 to 2011, Director, Department of Natural Resources, Bank for Development and Foreign Economic Affairs (Vneshekonombank) State Corporation. From 2009 to 2012, member of the Board of Directors of OJSC Novinsky Boulevard 31 and OJSC Kaluga Region Development Corporation, and member of the Supervisory Board, Moscow Joint Stock Company Slava (Second Watch Factory). From 2011 to 2013, member of the Board of Directors, LLC Titan Agro, and member of the Supervisory Board, OJSC Federal Centre for Project Finance. From 2012 to 2013, member of the Board of Directors, LLC KB VMK, and member of the Supervisory Board, OJSC Belvnesheconombank.

Presently, Director, Directorate of Natural Resources and Construction, Bank for Development and Foreign Economic Affairs (Vneshekonombank) State Corporation. Chairman of the Board of Directors, LLC VEB Project Management; Deputy Chairman of the Board of Directors, CJSC Kraslesinvest; member of the Board of Directors, OJSC Razgulyay Group and OJSC Verkhnekamsk Potash Company. In 2014, he held no shares of the company.

Aleksandr Vakhmistrov

Member of the Board of Directors,
Member of the Board of Directors since June 2014.
CEO and Chairman of the Executive Committee, OJSC LSR Group, 07.07.2010.
Born in 1954.

Graduated from Obraztsov Leningrad Institute of Railway Transport Engineers in 1981 with a degree in industrial and civil construction. In 2000, graduated from St. Petersburg University of the Ministry of the Internal Affairs of Russia with a degree in law. Ph.D in economics, Professor, St. Petersburg State University of Architecture and Civil Engineering and St. Petersburg State Polytechnic University.

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, recruited by the Construction Committee to organise the interaction between the municipal administration and private investors and appointed CEO of Investment Directorate, Department of Construction, St. Petersburg Mayor's Office. From 1996 through 2000, CEO, Centre for Bank Credit Management. From 2000 through 2003, Chairman, Construction Committee of the City of St. Petersburg, Vice-Governor of St. Petersburg. From 2003 through 2009 - member of the Government of St. Petersburg, Vice-Governor of St. 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 St. Petersburg and head of Administrative Office of the Governor of St. Petersburg. From 2010 through 2013, CEO, LLC LSR-Stroy (an LSR Group enterprise). Currently he is the CEO of LLC LSR.

First vice-president and member of the Board of NOSTROY (national association of civil engineers). Honoured Builder of Russia. Merited Builder of the Russian Federation. Bearer of Fourth Class, Order for Merit to the Fatherland; awarded the Order of Friendship and Order of Honour. Received two official commendations by the President of the Russian Federation and a science and engineering award from the Government of the Russian Federation.

In 2014, he held no shares of the company.

Dmitri Gontcharov

Member 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.

Since April 2013, Deputy Chairman of the Board of Directors
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).
In 2014, he held no shares of the company.

Yury Kudimov

Member of the Board of Directors,
Independent director

Member of the Board of Directors since June 2014.

Born in 1953.

He graduated from Lomonosov Moscow State University in 1979, and completed the MBA program at Dauling College in the United States in 1998.

From 1994 to 1995, head of the investment board of the Russian Investment Financial Company.

From 1995 to 2009 he occupied various positions in National Reserve Bank, JSCB.

From 2004 to 2009, President, Chairman of the Executive Committee of National Reserve Bank, JSCB.

In 2011-2014, Member of the Board of Directors of OJSC Federal Freight Company.

From 2012 to 2014, Chairman of the Board of Directors of OJSC International airport Sheremetyevo.

From 2009 to the present time, CEO of LLC Investment Company of Vnesheconombank (LLC VEB Capital).

In 2014, he held no shares of the company..

Andrey Molchanov

Chairman of the Board of Directors,

Member of the Board of Directors since April 2013.

Born in 1971.

Graduated from the Department of Economics of St. Petersburg State University in 1993 and from the Russian Academy of Public Administration (with a degree in State and Municipal Administration) in 1998. Ph.D in economics.

Founded OJSC LSR Group in 1993 and chaired it until 2007. In 2007, appointed Assistant Minister of Healthcare and Social Development of the Russian Federation, in 2008 elected into the Federation Council of the Federal Assembly of the Russian Federation, representing the Leningrad region.

Honourary Builder of Russia. Awarded Medal Second Class of the Order For Merit to the Fatherland in 2012.

In 2014, he held no shares of the company.

As of 31 December 2014, Andrey Molchanov is the final beneficiary of Streetlink Ltd., owning 60% of shares of the Company.

Yury Osipov

Member of the Board of Directors,

Member of the Board of Directors since June 2014.

Born in 1936.

Graduated from Gorky Ural State University in 1959. Professor, Academician of the Russian Academy of Sciences.

From 1969 to 1993 occupied various positions in the Ural Branch of the USSR Academy of Sciences Institute of Mathematics and Mechanics. In 1987 he became an Academician of the USSR Academy of Sciences, in 1991 - Academician of the Russian Academy of Sciences. From 1991 to 2013 - President of the Russian Academy of Sciences, from July 2013 to the present time - adviser to the Russian Academy of Sciences. Since 2011 - member of the Trustee Council of the Russian Council on International Affairs Foreign member of the Austrian Academy of Sciences, Hungarian Academy of Sciences, as well as national academies of sciences of Armenia, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, and Ukraine.

Full Cavalier of the Order of Merit for the Fatherland

In 2014, he held no shares of the company.

Sergey Skaterschikov

Member of the Board of Directors,

Member of the Board of Directors since June 2007.

Born in 1972.

Graduated from Lomonosov Moscow State University in 1994; earned a Global Executive MBA degree of the Fuqua School of Business, Duke University, USA in 2003.

From 2004 to 2012, member of the Board of Directors, OJSC OMZ. From 2006 to 2009, member of the Board of Directors, OJSC Kirovsky Zavod. From May to September 2011, member of the Management Board, OJSC LSR Group. From 2011 to 2013, member of the Board of Directors of OJSC Volga. From 2012 to 2014 was a member of the Board of Directors of Redline Capital Management SA (Luxembourg). From 2012 to 2014, member of the Board of Directors of East West United Bank SA (Luxembourg).

From 2006 to the present time, member of the Business Council Independence Holding Limited (Nezavisimost Group) From 2009 to the present time, CEO of LLC Capital SA. From 2012 to 2104, managing director of Redline Capital Management SA (Luxembourg). From 2013 to the present time, Member of the Board of Directors of Paddle8. From 2014, member of the Board of Directors of Dauria Aerospace.

In 2014, he held no shares of the company.

Elena Tumanova

Member of the Board of Directors,

Member of the Board of Directors since February 2008.

Born in 1958.

Graduated from Leningrad Shipbuilding Institute in 1981, from St. Petersburg State University of Economics and Finance in 1995, and from International Banking Institute and Stockholm Business School (Stockholm University) in 2007. Holds M.Econ. and MBA degrees.

From 1993 to 2000, worked in CFO positions at different enterprises of LSR Group. From 2000 to -2011, Chief Financial Officer at LSR Group. From 2011 to 2013 held the post of Chief Operating Officer. From July 2013 to June 2014 - Advisor to the Chairman of the Board of Directors of OJSC LSR Group.

In 2009-2013, worked as an auditor at LLC Professional Audit.

Honoured Builder of Russia. Awarded the 300th Anniversary of St. Petersburg Memorial Medal in 2005.

Holds an auditor's certificate and a qualification certificate of the Ministry of Finance of the Russian Federation. Member of the Audit Chamber of Russia.

In 2014, her share in the company remained unchanged and was 0.13%.

Olga Sheikina

Member of the Board of Directors,

Member of the Board of Directors since June 2010.

Born in 1960.

Graduated from St. Petersburg State Mining Institute in 1983 and from St. Petersburg State University of Economics and Finance in 2000, Management Program.

Employed at LSR Group and its subsidiary enterprises - since its foundation in 1993.

From 2002 to 2008, head of the administrative office. From 2008 to the present time, head of the Moscow representative office of OJSC LSR Group, the administrative office of the Board of Directors of OJSC LSR Group, and the Moscow representative office of LLC LSR, also serving as CEO of OJSC MTO ARKHPROEKT, an LSR Group subsidiary.

In 2014, her share in the company remained unchanged and was 0.13%.

Kirill Androsov, Mikhail Romanov, and Mark Temkin joined the Board of Directors during the reporting period, but by the end of the reporting period were not members of the Board of Directors.

Activity of the Board of Directors in 2014

In 2014 17 meetings of the Board of Directors were held:

- 7 meetings of the Board of Directors in in-person form at a specific place to discuss agenda issues and make decisions on them or simultaneous discussion of agenda issues and decisions on them using webinar access, meeting the requirement of protection against

unauthorised access and identification reliability of the meeting attendees (hereinafter referred to as a physical meeting);

- 10 meetings in the form of examining agenda issues and making decisions on them without simultaneous, joint discussion via filling out written ballots (absentee vote) (hereinafter referred to as an absentee meeting).

4 physical and 4 absentee meetings of the Board of Directors were held before the annual General Meeting of Shareholders on 20 June 2014.

3 physical and 6 absentee meetings of the Board of Directors were held after the annual General Meeting of Shareholders and before 31 December 2014.

Directors' participation in the Company in the 2014 Board of Directors meetings

Member of the Board of Directors	Participation in physical meetings	Participation in absentee meetings
Kirill Androsov Did not join the Board of Directors, elected at the annual General Meeting of Shareholders on 20 June 2014	4	4
Ilgiz Valitov	5	4
Aleksandr Vakhmistrov Joined the Board of Directors, elected at the annual General Meeting of Shareholders on 20 June 2014	3	6
Dmitri Gontcharov	7	10
Yury Kudimov Joined the Board of Directors, elected at the annual General Meeting of Shareholders on 20 June 2014	3	6
Andrey Molchanov	7	10
Yury Osipov Joined the Board of Directors, elected at the annual General Meeting of Shareholders on 20 June 2014	3	3
Mikhail Romanov Did not join the Board of Directors, elected at the annual General Meeting of Shareholders on 20 June 2014	4	4
Sergey Skaterschikov	6	9
Mark Temkin Did not join the Board of Directors, was elected at the annual General Meeting of Shareholders on 20 June 2014	4	4
Elena Tumanova	7	10
Olga Sheikina	7	10

The following were the most important decisions which significantly impacted on the company's performance in the reporting year:

1. Decisions related to the preparation and holding of the annual General Meeting of Shareholders;
2. Decisions related to the operation of executive and supervisory management bodies of the Company (including the regular hearings of executive management reports of the corporate business results).
3. Decisions defining the financial and economic policy of the Company (approval of budget benchmarks, business plans, Company policy on current asset financing (credit policy), investment program, and corporate development plans).

The Federal Law on Joint Stock Companies grants the Board of Directors the most important role in safeguarding shareholders' rights, in formulating and implementing the Company's development strategy, and ensuring its financial and operational success.

All activities of the Board of Directors throughout the reporting year remain transparent for the shareholders, as all the minutes of the Board meetings are available to any shareholder on request.

The operation of the Board of Directors has been organised in accordance with the approved operating plans and the implementation of its decisions has been monitored on a regular basis. No decisions over the reporting period remain unimplemented.

Members of the Board of Directors do not have conflicts of interest. Members of the Board of Directors are not participants, do not hold positions in executive bodies and/or are not employees of legal

entities competing with the Company.

In future years, the Board of Directors will pay utmost attention to the matters of increasing LSR Group's profitability, as well as pursuing a stable, robust, and competitive policy on the principal markets for its products, work, and services.

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 regulated 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 independent directors. The CEO and members of the Executive Committee are not 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 31 December 2014.

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 evaluates candidates for independent auditors of LSR Group, analyses the auditor's conclusions, verifies the efficacy of the internal control procedures, and prepares proposals for their improvement. The Audit Committee ensures control over the preparation of financial reporting, completeness and reliability of the tax accounting and managerial reporting.

There were 6 meetings of the Audit Committee of the Board of Directors in 2014. Some of the primary issues reviewed by the Audit Committee of the Board of Directors and recommended for approval by the Board of Directors were:

- Review of the financial report of OJSC LSR Group for 2013.
- Recommendations to the Board of Directors on approval of auditors of the IFRS and RAS of the Company's 2014 reporting.
- Review of the Provisions on the Audit Committee of the Board of Directors of OJSC LSR Group in the new edition.

Composition of the Audit Committee:

Yury Kudimov, Committee Chairman
Yury Osipov
Elena Tumanova.

Human Resources and Compensations Committee

The Human Resources and Compensations Committee makes recommendations to the Board of Directors to determine significant terms and conditions of agreements with members of the Board of Directors, Executive Committee, CEO and higher management, as well as remuneration for members of the Executive Committee, CEO and higher management, and develops remuneration criteria for Board of Directors' members. Additional tasks of the Human Resources and Compensations Committee are formation of an HR policy and management of issues of wages and incentives for the company's employees.

There were 4 meetings of the Human Resources and Compensations Committee of the Board of Directors in 2014. Some of the primary issues reviewed by the Human Resources and Compensations Committee of the Board of Directors and recommended for approval by the Board of Directors were:

- Review of a long-term incentive program for management of LSR Group for 2014-2017.
- Review of the Management Incentive Program of LSR Group for 2015.

Composition of the Human Resources and Compensations Committee:

Yury Kudimov, Committee Chairman
Yury Osipov
Elena Tumanova.

Strategy and Investment Committee

The Strategy and Investment Committee assists the Board of Directors in implementing its functions regarding corporate strategy, including control of development and implementation of strategy, analysis and approval of business buy-sell transactions, approval of major investment projects and control of their implementation, and distribution of the investment budget.

There were 3 meetings of the Strategy and Investment Committee of the Board of Directors in 2014. Some of the primary issues reviewed by the Strategy and Investment Committee of the Board of Directors and recommended for approval by the Board of Directors were;

- Review of the strategic plan of OJSC LSR Group for 2014-2017.
- Review of the financial plan of OJSC LSR Group for 2015.

The composition of the Strategy and Investment Committee:

Andrey Molchanov, Committee Chairman

Dmitri Gontcharov,

Yury Kudimov,

Yury Osipov,

Sergey Skaterschikov.

Company's executive bodies

The current business of the Company is managed by the sole executive body, the CEO and collegial executive body, the Executive Committee.

Rights and obligations of the CEO and members of the Executive Committee to manage the current business of the Company are defined by Federal Law, other legal acts of the Russian Federation, by Company's internal documents and agreements between the CEO and members of the Executive Committee and the Company.

The terms of office of the CEO and the Executive Committee are determined by the Board of Directors.

CEO

The CEO acts as the Chairman of the Executive Committee.

The CEO's competence includes all management issues of the current business of the Company, with the exception of issues related to the competence of the Company's General Meeting of Shareholders, Board of Directors and Executive Committee.

The CEO acts on behalf of the Company, including:

- represents the interests of the Company, both in the Russian Federation and abroad;
- ensures fulfilment of business plans of the Company, requisite for resolution of its tasks;
- approves internal Company documents, with the exception of internal documents regulating the activity of the Company bodies to be approved by a General Meeting of Shareholders decision, as well as other internal Company documents, the approval of which is classified by the Company's Charter to the competence of the Board of Directors;
- solves other issues of the Company's current business, with the exception of issues relating to the competence of the General Meeting of Shareholders, Board of Directors or Executive Committee.

Executive Committee

The Executive Committee supervises the business of the Company within its competence as defined by the Company's Charter, and ensures fulfilment of the decisions of the Meeting and Board of Directors.

The competence of the Executive Committee includes the following issues:

- development and submission to the Board of Directors of long-term plans for the main Company business areas;
- implementation of current control over execution of measures aimed at implementation of the Company's long-term and financial plans;
- review of quarterly, semi-annual, and annual financial plans of the Company;
- review of annual, semi-annual, and quarterly execution reports of the Company's financial plans;
- preliminary examination of the Company's draft documents, the approval of which is categorised by the Company's Charter under the competence of the General Meeting of Shareholders and the Board of Directors, and draft amendments and supplements to these documents;
- decision on participation, change in the level of participation and termination of participation of the Company in other legal entities (with the exception of participation in financial and manufacturing

groups and other associations of commercial organisations), as well as decision on participation, change in the level of participation and termination of participation of subsidiaries, dependent companies and companies in which the Company is an indirect participant through subsidiaries in the charter capitals over 50%;

-other issues stipulated by the Company's Charter.

Activity of the Executive Committee in 2014

The Executive Committee held 30 meetings in 2014:

Some of the primary issues reviewed by the Executive Committee and recommended for approval by the Board of Directors were:

- Review of the long-term financial plan of LSR Group for 2014-2017.
- Review of the financial report of LSR Group for 2013.
- Review of the new edition of the Company's Charter.

The members of the Executive Committee do not have conflicts of interest. Executive Committee members are not participants, do not hold positions in the executive bodies and/or are not employees of legal entities in competition with the Company.

Executive staff of the Company

The CEO and Chairman of the Executive Committee of OJSC LSR Group is Aleksandr Vakhmistrov.

Aleksandr Vakhmistrov

CEO and Chairman of the Executive Committee, OJSC LSR Group, 01.07.2010.

Member of the Board of Directors of OJSC LSR Group since June 2014.

In 1975-1994, Aleksandr Vakhmistrov worked for various construction industry companies holding positions from that of a specialist to CEO. He was Head of Construction Department No.339 of LPSMO Glavzapstroy, Production Director of the Soviet-Finnish joint venture engineering firm Lentek, CEO of the Soviet-Finnish joint venture construction company FILCO. 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. In 1996-2000, he was CEO of the state institution Centre of Bank Loans. In 2000-2003 – Chairman of the Construction Committee of St. Petersburg Administration and Vice Governor of St. Petersburg. In 2003 -2009 - member of the Government of St. Petersburg, Vice Governor of St. Petersburg responsible for construction and reconstruction of real estate, road building, architecture and urban planning, and land policy of St. Petersburg for construction purposes. In 2009-2010 – Vice Governor of St. Petersburg and Head of St. Petersburg Governor Administration. In 2010-2013, he was CEO of OOO LSR-Stroy (subsidiary of LSR Group). Currently he is CEO of OOO LSR.

In 1981, graduated from Leningrad Railway Engineers Institute with a degree in Industrial Construction and Civil Engineering, in 2000 graduated from St. Petersburg University of the RF Ministry of the Interior with a degree in Law. Doctor of Economics. Professor of St. Petersburg State University of Architecture and Construction and St. 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. Awarded the Order for Merit to the Fatherland, 4th degree, Order of Friendship, Order of Honor. Two official commendations of Russia's President, and Science and Technology Awards of the Russian Government.

Born in 1954.

In 2014, he held no shares of the company.

The Executive Committee, a collegial executive body, includes the following members:

Sergey Begoulev

Member of the Executive Committee.

Has been a member of the Executive Committee of OJSC LSR Group since April 2013.

Sergey Begoulev joined LSR Group in 1999. He started working in ZAO NPO Keramika as Deputy Head of Commercial Department, Deputy CEO and then CEO. In 2005 he became Head of CJSC Pobeda LSR which united three brick plants of LSR Group into a single company. In 2012-2013 – CEO of OOO Cement (subsidiary of LSR Group). In July 2013, he was appointed Managing Director, Bricks & Aerated

concrete - North-West. Since December 2013 – Deputy CEO, Managing Director of LSR. Bricks & Aerated concrete - North-West.

In 1996 graduated from St. Petersburg University of Economics and Finance.

Born in 1974.

In 2014, his share in the company remained unchanged and was 0.04%.

Lev Vinnik

Member of the Executive Committee.

Has been a member of the Executive Committee of OJSC LSR Group since September 2011.

In 2002, Lev Vinnik started working at the real estate development business unit of LSR Group in St. Petersburg as New Projects Manager. In 2003, he was appointed Head of Development Team and then Expert in New Projects. In 2003-2007 - First Deputy Director and then Director of St. Petersburg State Institution Directorate for Investments. In 2007, he started to work for Russia's Ministry of Defense. Since 2010 – Deputy CEO of OOO LSR Story (subsidiary of LSR Group), since 2013 – CEO of OOO LSR Stroy, Managing Director of LSR. Project management business unit. Since 2013 – CEO of OJSC Stroykorporatsiya (subsidiary of LSR Group).

He was awarded the Commendation of St. Petersburg Governor for attracting foreign investments.

In 1991 graduated from Leningrad Institute of Aviation Instrumentation, a degree in Radio Technology.

In 1999, he graduated from St. Petersburg International Institute of Management, Management program.

In 2006-2007, he studied at St. Petersburg State University of Architecture and Civil Engineering, Industrial and Civil Construction program.

Born in 1967.

In 2014, he held no shares of the company.

Galina Volchetskaya

Member of the Executive Committee.

Has been a member of the Executive Committee of OJSC LSR Group since April 2013.

In 1989-1991, Galina Volchetskaya was a Legal Counsel at USSR State Logistics Committee (Leningrad territorial directorate). In 1992-1994, she worked for a private law company, in 1994-2011 - in the system of State Registrations of Rights for Realty. In 2000-2002 she gave civil right lectures at St. Petersburg State University of Engineering and Economics. Galina Volchetskaya joined LSR Group in April 2011. She was appointed Deputy Chief Legal Officer. In 2013, she became Deputy Chief Operating Officer. Since July 2013 - Deputy Chairman of the Executive Committee, Executive Director.

In 2010, she was awarded the Certificate of Merit of the President of the Russian Federation.

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

Born in 1967.

In 2014, he held no shares of the company.

Yury Ilyin

Member of the Executive Committee.

Member of the Executive Committee of OJSC LSR Group since April 2013.

Yuri Ilyin joined LSR Group in 2005. In 2005-2006 he was Advisor to First Vice President of LSR Group. In 2006-2007 – Head of Commercial Real Estate of OJSC Construction Corporation Renaissance of St. Petersburg (subsidiary of LSR Group). In 2007-2010 worked as Deputy CEO, and later – CEO of CJSC A Plus Estate (subsidiary of LSR Group). In June 2010 was appointed Deputy Director of Investor Relations of LSR Group, in May 2011 – Director of Investor Relations. In May 2012 he became Director of Investor Relations and Corporate Communications. Since July 2013 – Director of Investor Relations.

In 2000 graduated from St. Petersburg State University and Stockholm University, School of Business, MBA.

Born in 1977.

In 2014, he held no shares of the company.

Vasily Kostritsa

Member of the Executive Committee.

Since September 2011, member of the Executive Committee, OJSC LSR Group.

Since 1992 he held various positions at North-West River Shipping. From 1997 he was CEO of OOO StroyGranit SPb. In 1999 he was appointed CEO of OOO Baltnerud. In 1997, he became member of the Board of Directors of OJSC

Granit-Kuznechnoye, then, in 2002, was appointed CEO, in 2005 – Managing Director. Since 2011, he was Managing Director of Aggregates & Ready-mix Concrete - North-West. In July 2013, he was appointed Deputy CEO, Managing Director of LSR. Aggregates & Ready-mix Concrete - North-West.

Awarded the Honorary Certificate of Russia's Ministry of Regional Development and the Badge of Merit of Priozersky district. Honored citizen of Kuznechnoe, Leningrad region. Awarded the Medal of St. Seraphim of Sarov, 2nd degree. Vasily Kostritsa is a Member of the Legislative Assembly of the Leningrad region, Deputy Chairman of the Commission for Natural Resources Management and Environmental Protection, member of the Commission for Construction, Transport, Communication and Roads. Member of People's Front of Russia. Honored Builder of Russia.

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

Born in 1964.

In 2014, his share in the company remained unchanged and was 0.21%.

Dmitry Kutuzov

Member of the Executive Committee.

Member of the Executive Committee of OJSC LSR Group since April 2012.

In 2004, he began his career in LSR Group as Head of Economic Planning Department. In 2008, was appointed Deputy Chief Financial Officer, Head of Treasury Department. Since May 2011 he is Chief Financial Officer of LSR Group.

Awarded the Honorary Certificate of the Vice Governor of St. Petersburg for high professional achievements, impeccable and conscientious work in the construction industry in 2011.

In 1999, graduated from St. Petersburg State University of Finance and Economics, a degree in Economics. In 2005, graduated from St. Petersburg International Management Institute (IMISP), Business Finance program.

Born in 1976.

In 2014, he held no shares of the company.

Vladimir Loginov

Member of the Executive Committee.

Since September 2011, member of the Executive Committee, OJSC LSR Group.

In 1996 started working at Leningrad Region Registration Chamber with the Government of Leningrad region holding various positions from specialist to Deputy Head of Legal Affairs Department. In 2003, he was appointed Head of Legal Affairs Department of LSR Group. In 2005-2013, he was Chief Legal Officer of LSR Group. Since January 2013 he is Deputy CEO, business development of LSR Group.

In 2003, he was awarded the medal In Commemoration of the 300th Anniversary of St. Petersburg, in 2011 – the Honorary Certificate of the Vice Governor of St. Petersburg.

In 1999, he graduated from St. Petersburg State University, Faculty of Law. In 2007-2009, he studied at the School of Tax Attorneys of St. Petersburg State University.

Born in 1974.

In 2014, he held no shares of the company.

Boris Murashov

Member of the Executive Committee.

Member of the Executive Committee of OJSC LSR Group since December 2013.

In 1974-1994, worked in various construction companies, holding positions from specialist to Head of a major construction company. He was engaged in various construction projects in Russia, Latvia, Estonia, Turkmenistan and Austria. In 2001-2009, he held senior positions in the Federal institution Department for Construction of the Ring Road of St. Petersburg of the Federal Road Agency. In 2006 he was appointed CEO of the institution. In 2009, he headed St. Petersburg Committee for Improvement and Roads. In 2010, was appointed Chairman of the Committee for Transport Infrastructure Development in St. Petersburg. In 2012-2013, he was Assistant to the Minister of Regional Development. Since November 2013 – Deputy CEO of LSR Group. Since 2014 has been CEO of LLC LSR-Stroy (subsidiary of LSR Group).

Honored Builder of Russia. Honorary Transport Worker of Russia. In 2004, 2010 and 2012, was awarded the Diplomas by the Governor of St. Petersburg. In 2009, was awarded the badge In Commemoration of the 200th Anniversary of the Department of Marine and Land Transport.

In 1980, graduated from Moscow Institute of Railway Engineers with a degree in Bridges and Tunnels. In 2004, he graduated from the Northwest Academy of Public Service with a degree in Finance and Credit.

Born in 1957.

In 2014, he held no shares of the company.

Ivan Romanov

Member of the Executive Committee.

Member of the Executive Committee of OJSC LSR Group from January 2011 through July 2012.

Member of the Executive Committee of OJSC LSR Group since April 2013.

In 1994-1998, Ivan Romanov worked as a real property appraiser in Dom Plus real estate agency, St. Petersburg. In 1998, he was invited as real estate development analyst to the World Bank's project Reconstruction of the historical centre of St. Petersburg. In 2000-2001, he was a member of the Investment Appraisal Board of the Russian Federation State Committee for Construction, Architectural and Housing Policy. He joined LSR Group in 2000. He started as an economist in OJSC Construction Corporation Renaissance of St. Petersburg, later – Head of Economic Planning Department, in 2001 – Deputy CEO, in 2002- 2007 – CEO, after that – Managing Director. Since 2007 – Managing Director of CJSC Mostroyrekonstruktsiya (the company's real estate development business unit in Moscow). Since 2009 he was Head of LSR. Moscow. Since 2011 - Managing Director, member of the Executive Committee. In 2012, he worked for the Government of Moscow Region. In April 2013, he was appointed Managing Director, Moscow. Since 2014 has been the Director of LLC Promobyekt (subsidiary of LSR Group).

In 1994, he graduated from Leningrad Industrial College of Building Materials and Details with a degree in Industrial and Civil Construction. He continued his education at St. Petersburg State Technical University and in 1998 he graduated from the Faculty of Economics and Management. In 2001, he studied at St. Petersburg International Management Institute (IMISP), Project Management programme, and also at St. Petersburg State University, Financial Management programme.

Born in 1973.

On 04.09.2014, his share in the company changed from 0.0770% to 0.0728%

On 18.09.2014, his share in the company changed from 0.0728% to 0.0709%

On 09.10.2014, his share in the company changed from 0.0709% to 0.0689%

On 13.11.2014, his share in the company changed from 0.0689% to 0.0660%

Leonid Sorokko

Member of the Executive Committee.

Member of the Executive Committee of OJSC LSR Group since December 2013.

Leonid Sorokko started his career in 1977 – he worked for various construction companies holding positions ranging from specialist to CEO of a huge construction enterprise. In 2007-2009 – Head of the Department for Construction of Russia's Defense Ministry and Advisor to the Minister of Defense of Russia. In 2009-2013, he was CEO of OOO Construction Company Pyotr Veliky. Since November 2013 – Deputy CEO of LSR Group.

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

Born in 1954.

In 2014, he held no shares of the company.

Kliment Falaleev

Member of the Executive Committee.

Member of the Executive Committee of OJSC LSR Group since January 2011.

In 2003-2004 worked in LSR Group as a Senior Finance Analyst of Financial Planning and Control Department. In 2005-2007 - Deputy CFO of LSR Group. In 2008-2011, he was Director of Investor Relations. In May 2011, he was appointed Managing Director. In January 2013, he was appointed Director of Regional Development, Urals. Since July 2013 - Managing Director, Urals.

In 2001 graduated from St. Petersburg National Institute of Mechanics and Optics. In 2012, he completed his education at Chicago Booth School of Business (EMBA).

Born in 1978.

In 2014, his share in the company remained unchanged and was 0.0015%.

Dmitry Khodkevich

Member of the Executive Committee.

Since September 2011 member of the Executive Committee, OJSC LSR Group.

In 1999, Dmitry Khodkevich became Deputy CEO of OJSC Construction Corporation Renaissance of St. Petersburg. In 2000, he was appointed Deputy CEO for Construction and in 2006 – Director for Construction. Since February 2011 he was Managing Director of OOO GDSK. In September 2011, he was appointed Managing Director, Real Estate - North-West. In 2011-2013 – he was also CEO of OJSC Stroykorporatsiya.

Awarded the Honorary Certificate of the Vice Governor of St. Petersburg, Honorary Certificate of the Chairman of State Committee of Russian Federation for Construction and Housing Maintenance and Utilities for long-term efficient work and personal contribution to the development of the construction industry.

Graduated from Leningrad Higher Military Engineering and Construction School named after Army General A. Komarovskiy with a degree in Construction and Operation of Buildings and Structures in 1992.

Born in 1970.

In 2014, he held no shares of the company.

Primary results of assessment of the Board of Directors and executive bodies of the Company

The Board of Directors of the Company, conducting a formal self-assessment, has recognised the work of the Board of Directors and its Committees as effective. The Board of Directors has identified the priority to strengthen the Board of Directors with the presence on the Board of Directors of at least three independent members of the Board of Directors.

In November 2014 under order of LSR Group, the research company Orient Capital analysed the perception of the company by the investment community. During the research, interviews were conducted with representatives from 24 major institutional investors of LSR Group.

The research results demonstrated that the company's management has the trust of the investors. The respondents noted that LSR Group management has realistic viewpoints and a clear understanding of the complexities that the company faces in the Russian real estate market.

Representatives of the investment funds highly evaluate the competence of the management team of LSR Group. Investors noted management's extensive work experience in the company and in the construction industry as a whole. An absolute majority of Executive Committee members have over 10 years of experience in the sector and in the company. A number of company managers have dedicated almost 40 years to the industry of construction and real estate development.

The basic provisions of the Company's policy regarding remuneration and/or expense compensation

There are three incentive programmes for key managers operating in LSR Group:

1. Annual: short-term incentive programme
2. 2013-2015: medium-term incentive programme
3. 2014-2017: long-term incentive programme

In the short-term and medium-term programmes, the participants are paid a fixed remuneration. The long-term programme is implemented as share-based.

Participants of the incentive programme are:

1. managers of legal entities, which are subsidiaries and/or dependent companies of OJSC LSR Group
2. managers of LSR Group business units
3. members of the Executive Committee
4. members of the Board of Directors who at the same time are employees of LSR Group.

For those participants of the incentive programme who are included in several bonus categories bonus payment is calculated based on their performance indicators as managers of LSR Group business units.

The bonus specified by the programmes is paid no later than 30 June of the year after the reporting period, on the condition that the audited financial reporting of OJSC LSR Group (under IFRS standards) has been approved.

A bonus is only paid to programme participants who are employees of LSR Group at the time of tallying of the results (approval of the reporting by the Board of Directors of OJSC LSR Group).

The programme participants who have not worked a full calendar year in the position indicated in the programme are paid remuneration proportional to the worked time.

Severance pay is given in accordance with the Russian Federation Labour Law.

Description with indication of the amount of all types of remuneration for the Company's management members which were paid by the Company during the reported period

Board of Directors

Unit of measurement: thousand roubles

Index name	2014
Remuneration for participating in work of executive body	162,326
Wages	3,589
Bonuses	7,251
Commissions	0
Benefits	0
Expense reimbursements	2,214
Other types of remuneration	0
TOTAL	175,380

Executive Committee

Unit of measurement: thousand roubles

Index name	2014
Remuneration for participating in work of executive body	1,646
Wages	43,626
Bonuses	19,153
Commissions	0
Benefits	0
Expense reimbursements	0
Other types of remuneration	0
TOTAL	64,425

Information about total remuneration for year:

a) for a group of no less than five of the most highly paid members of the executive bodies and other key company managers with breakdown for each type of remuneration (8 participants)

Unit of measurement: thousand roubles

Index name	2014
Remuneration for participating in work of executive body	938
Wages	92,607
Bonuses	22,643
Commissions	0
Benefits	0
Expense reimbursements	0
Other types of remuneration	0
TOTAL	116,188

b) for all members of executive bodies and other key company managers who are covered by the company's remuneration policy, with breakdown for each type of remuneration (22 participants).

Unit of measurement: thousand roubles

Index name	2014
Remuneration for participating in work of executive body	1,647
Wages	212,819
Bonuses	41,254
Commissions	0
Benefits	0
Expense reimbursements	0
Other types of remuneration	0
TOTAL	255,720

Information regarding loans issued by a legal entity from the group of organisations of which the Company is a member, to the members of the Company's executive bodies; information regarding compliance of the terms of the issued loans with the market conditions: LLC LSR (subsidiary of LSR Group) and a member of the Company's Executive Committee have entered into a loan agreement for 1,200,000 roubles under market conditions.

Company corporate secretary

Elena Chistyakova

Corporate secretary

Has been the corporate secretary of OJSC LSR Group since December 2014

Hired in 2002 as a specialist to the corporate capital department in LLC PSG LSR (subsidiary of LSR Group), appointed in 2004 as lead specialist of the corporate capital department, in 2005 became the head of the corporate property division of corporate capital department.

From 2011 was the Deputy Director of the corporate capital Directorate of LLC LSR (subsidiary of LSR).

In March 2011 appointed to the position of Department Head for corporate capital management. From 2013 to 2014 was the secretary of OJSC LSR Group.

Awarded the Gold Medal "Best in LSR", rating Diploma recipient "TOP-1000 Russian Managers" of the Association of Managers, Honorary Certificate of the President of the NP St. Petersburg Association of Builders".

Graduated in 2001 from St. Petersburg State University, Faculty of Law.

Born in 1973.

In 2014, he held no shares of the company

Internal Audit Commission

In accordance with the existing legislation and the Charter 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 OJSC LSR Group. The competence of the Internal Audit Commission on matters not provided for in the Charter shall be determined by the Regulations on the Internal Audit Commission.

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 auditors

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. In 2014, CJSC Audit-Servis was approved to audit RAS-based financial statements of LSR Group.

The auditor of the Company's accounting reporting prepared in accordance with RAS, Closed Joint Stock Company Audit-servis (hereinafter referred to as Company) on 30.12.2014 was reorganised into a Limited Liability Company Audit-servis SPb with transfer to it of all the rights, obligations and liabilities of the reorganised Company in accordance with the transfer act.

In 2014, CJSC CJSC KPMG was approved to audit IFRS-based financial statements of LSR Group.

Selection of the auditor CJSC KPMG complies with the requirements of the Regulation on tenders of LSR Group.

The cost of auditor services in OJSC LSR Group is fixed (total of 15.7 million roubles exclusive of VAT and overhead costs) and does not pose a threat to the independence of external auditors.

In order to maintain the principle of objectivity, the external auditors regularly rotate the auditor groups.

Shareholder capital

The authorised capital of the company amounts to RUB 25,757,553.75, and is divided into 103,030,215 ordinary registered shares with a nominal value of RUB 0.25 .

Information regarding ordinary shares and GDRs

The shares of LSR Group are traded on the Russian and international stock markets. The company's ordinary shares and bonds are traded on the Russian stock market and the company's global depositary receipts (GDRs) are traded on the London Stock Exchange.

Shares of OJSC LSR Group:

State registration issue number: 1-01-55234-E
Date of state registration of issue: 28.09.2006
Stock Exchange: MICEX-RTS
Ticker: LSRG
ISIN for ordinary shares: RU000A0JPPF0

GDRs of OJSC LSR Group

Stock Exchange: London Stock Exchange
Ticker: LSRG
Regulation S GDR CUSIP 50218G206 ISIN: US50218G2066 Common Code: 032415202
Regulation 144A GDR CUSIP: 50218G107 ISIN: US50218G1076 Common Code: 032415334

Public placement of shares of OJSC LSR Group

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 depositary receipts.

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 depositary receipts were placed under international offer.

As of December 31, 2014 the company's ordinary shares were included in the quotation list "A" of the first level of MICEX-RTS under the ticker LSRG.

Outside of the Russian Federation, shares of OJSC LSR Group are traded in the form of global depositary receipts on the London Stock Exchange. Each depositary 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 depositary and the functions of custodian bank are performed by Deutsche Bank Ltd. Moscow.

All issued ordinary shares are fully paid-up. The company did not place any preference stock

During the reported period, the Company did not place additional shares. During the reported period, there were no changes in the composition of the people who have the right to deal, directly or indirectly, with not less than 5% of the votes due to the company's voting shares.

The Company does not hold its own shares. The subordinate legal entity LLC LSR owns 0.9706% of the company's capital.

Depositary contacts

Deutsche Bank Trust Company Americas

London +44 207 547 6500

New York +1 212 250 9100

Moscow +7 495 797 52 09

Correspondence address: Deutsche Bank Trust Company Americas Depositary Receipts 60
Wall Street New York NY 10005-2836

Address in Russia: 82/2 Sadovnicheskaya St., Moscow, 115035 Depositary Receipts

Contacts of Russian registrar

CJSC ComputershareRegistrar (licence number 10-000-1-00252)

Address: 8 Ivan Franko St., Moscow, 121108, Russia

Telephone: +7 (495) 926-81-60.

Postal address of the St. Petersburg branch of CJSC Computershare Registrar:

6 Belovodskiy Lane, St. Petersburg, 194044, Russia
Telephone: +7 (812) 541-82-48.

Dividend policy

The dividend policy of OJSC LSR Group was developed in accordance with the existing Russian legislation, recommendations of the Code of Corporate Governance, the Charter, and the internal documents of OJSC LSR Group. In December 2014, the Board of Directors approved a new version of the dividend policy which is available at 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. During the reported period, declaration and payment of dividend were in full compliance with the company's dividend policy.

Report of declared/accrued dividends paid on Company shares

During the reported period, the Company paid dividends for the following periods:

Dividend period	Stock class (type)	Dividend per share, RUB	Total accrued / total paid, RUB
2013	Ordinary	40	4,121,208,600/4,121,206,600

The meeting was held on June 20, 2014. The decision regarding the payment of dividends for the year 2013 was adopted by the Annual General Meeting of Shareholders upon reviewing the results of the year 2013. The dividend payment period ended August 5, 2014.

Income on the Company's issuer securities were not fully paid: the value of unpaid dividends amounted to RUB 2,000.

The reason for incomplete dividend payout is incorrect information submitted by a shareholder.

Description of the principal risk factors in the business of the Company

Industry-specific risks

The markets of real estate, building materials and services, similarly to any other commodity market, are exposed to fluctuations in business activity. The above markets are likely to suffer from adverse changes in the market situation, which may result in lower revenues from the sales of products and services.

The company is exposed to the risks typical of the real estate development and construction businesses in Russia. This business is labour-intensive, requires significant investments, depends on the obtaining of different licenses, permits and approvals from relevant authorities.

Problems with obtaining all the necessary licenses, permits and approvals may result in an increase in the project timeline including the impossibility of completing such projects, and increased costs. Apart from that, delayed completions may adversely affect our reputation, which may result in financial loss.

Changes in the permitting process and the process of obtaining rights to land plots, as well as changes in the town-planning legislation, may result in the increased timeline of projects and additional costs. In its turn, the increased timeline of projects may result in the cancellation of leasehold agreements.

The success of real estate development businesses depends, to a great extent, on the ability to locate and acquire land suitable for construction on attractive terms.

Higher operating costs, growing value of insurance coverage, potentially stricter requirements of the tax and environmental legislations may have an adverse effect on the business profitability of LSR Group. Growing prices for raw materials, services and energy used by the company's subsidiaries in their business, an increase in land prices and rental fees, fees for utilities, and also in wages may reduce the profitability of the company's business. An increase in the prices of the company's products and/or services due to the above factors may result in lower sales volumes which would entail reduced revenues from such operations due to a decline in effective demand (in the event that the growth of prices for products and/or services outstrips demand).

Most of our operations are located in St. Petersburg, the Leningrad Region, Moscow, the Moscow Region and Yekaterinburg; this results in the risk of geographical concentration.

Acquisitions of existing businesses have always been one of the priorities of company's development. However, they may result in the risk of circumstances arising from the acquisition of new legal entities. In addition, problems may emerge with the integration of newly acquired businesses into the group.

Our growth in the past was largely due to the possibility of attracting highly skilled and experienced personnel to the company. The labour market in Russia is changing, and it is impossible to guarantee that in the future it will be as easy for us to find the human resources required.

Country and region risks

The country and region specific risks include risks of macroeconomic instability in Russia due to fluctuations of the global economy and a decline in the prices for raw materials, risks related to unsatisfactory infrastructure condition, political and social instability, and also possible natural and man-caused disasters.

All of the above may have an adverse effect on the ability of LSR Group to efficiently carry out business, and also on the value of shares and global depositary receipts.

Financial risks

Risks of interest rate change

An increase in the interest rate of bank loans or other borrowings may result in higher debt servicing costs, and also limit the availability of external financing to the company.

Credit risks

The default on accounts receivable is one of the financial risks the company may be exposed to. Management of the financial risks is carried out by the business units of LSR Group based on the unified corporate principles and in accordance with the Policies on management of credit risks within LSR Group. Business units have the approved procedures to monitor and collect the accounts receivable: the contractors are rated in accordance with their financial position and the history of interaction with LSR Group, the delivery terms are adjusted in accordance with the rating, we carry out analyses of new contractors and suspend delivery in the case of contract terms violation and refusal of the contractor to

settle the indebtedness. If necessary our legal department starts legal action to collect debts. The company establishes an allowance reserves to write off bad debts if needed.

Currency risks

A significant growth in the exchange rate of the US dollar or Euro may result in higher payments on loans and leasing liabilities, and also have an effect on the key parameters of investment plans providing for the procurement of imported equipment.

The company minimises as much as possible any disproportion between the currency units in which its basic revenues and expenditures are denominated, and between the company's assets and liabilities. The company receives most of its revenues in roubles, and its costs are also denominated mainly in roubles.

Liquidity Risk

The liquidity risk means that a company may be unable to meet its financial obligations within the established time, which may result in fines, penalties and damage to business reputation. LSR Group manages the liquidity risk by planning cash flows from operational, investment and financial activities to ensure as much as possible – both under normal and extraordinary circumstances – sufficient liquidity to meet its obligations using if necessary short-term credit facilities and making efforts to refinance debt.

Legal risks

The legal risks are determined, among other things, by the flaws of the Russian legal system and Russian legislation, which results in an atmosphere of uncertainty regarding investment and commercial activities. The legal risks of LSR Group, including those due to changes in the currency exchange regulation, tax legislation, and licensing may have a considerable effect on LSR Group.

Risks of tax legislation change

Change in the tax system of the Russian Federation may result in significant uncertainty and risks that will complicate the decision making procedure in tax planning and business in Russia and may have a substantial negative effect on the business of LSR Group. Changes in legislations and the case law on taxation are not properly elaborated and allow for different approaches and interpretations. The vague legislation exposes LSR Group to the risk of substantial fines and penalties in spite of its keenness to comply with the legislation, and may result in increased tax burden for the company. The tax collection system is relatively inefficient, and the RF Government is forced to increase the tax burden to collect more revenues. The aforesaid factors increase the risk of imposing unexpected and arbitrary taxes as well as cancelling tax allowances.

License risks

Changes in the licensing requirements may have a substantial effect on the business results of the subsidiaries and associated companies of LSR Group. The impossibility to extend the validity of licenses, or their withdrawal, may result in the suspension of the respective company's activities. If regulators identify breaches of license conditions made by the company's subsidiaries, it may result in the suspension, change, and cancellation of, or refusal to extend licenses and permits issued to the subsidiaries, or in the demand to give up certain types of activity. Each of the above factors may have an adverse effect on the company's business, financial standing and operational results.

Other legal risks

Changes in the securities market legislation, including the adoption of the legislation on suspending illegal use of insider information and market manipulation, as well as its shortcomings such as the uncertainty and lack of enforcement actions may have negative consequences for the activities of LSR Group.

Changes in, or adoption of new corporate regulations and procedures established by laws and other enactments, may entail unfavorable consequences for OJSC LSR Group in the form of additional expenses incurred to abide by the above procedures.

Uncertainty in the regulatory control and insufficiencies of the case law or law enforcement practice may cause LSR Group being brought to liability, and have a negative effect on its business.

Formal violations of the corporate legislation committed upon establishment of, or during the activities of organizations may result in their compulsory liquidation, including after such organizations are acquired by LSR Group. Such compulsory liquidation of LSR Group's subsidiaries may have a substantial negative effect on its business.

The requirements of the environmental legislation of the Russian Federation may impose various additional obligations on the company's subsidiaries' compliance with which may affect operational results. In addition, claims may be lodged against the company's subsidiaries on environmental issues.

All these weaknesses may affect the company's abilities to exercise its rights under contracts, as well as its ability to defend itself against third party claims. Moreover, the company is unable to guarantee that regulatory and judicial authorities as well as third parties will not challenge the compliance by the company and its subsidiaries with the provisions of laws, decrees and regulatory instructions.

The system of risk management and internal control of the LSR Group

LSR Group has a multi-level system of risk management and internal control, which is assessed by the Board of Directors. The Executive Committee generates key decisions on risk management and internal control. Operational risk management is carried out by subsidiaries of LSR Group based on general corporate principles as set out in the various regulations of the Company. The corresponding local acts regulating the core business processes of their activities are adopted in the subsidiaries of the Company. In LSR Group accounting, legal, information technology support and economic security functions are centralised. The Board of Directors is responsible for general policy guidance for risk management and internal control. The Audit Committee of the Board of Directors oversees that management correctly evaluates compliance with policies on risk management and internal control of decision-making practice, as well as assesses the adequacy of risk management to the risks faced by the Company. The Internal Audit Service assesses the state of risk management and internal control systems at the level of structural subdivisions of the companies of LSR Group, and reports to the Audit Committee and senior management of the company. External auditors conduct an annual audit of the financial statements of OJSC LSR Group, prepared in accordance with RAS (Audit Service of St. Petersburg LLC) and in accordance with IFRS (CJSC KPMG). The Audit Committee has found the process of external and internal audit to be effective. The Internal Audit Commission of OJSC LSR Group also monitors financial and economic activities. In order to improve the effectiveness of risk management and internal control systems, LSR Group has organised a secure, confidential and easy way to inform officers of the Company about the facts of violations by company's employees of the law, the Code of Ethics or other internal procedures (The "Trust" Line).

Human resources and social policy of the Company, the social development, health protection of employees, their professional training, provision of safety at work

General Provisions (HR Policy)

The main principle of our 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 the company's development strategy.

The company's 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 favourable 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. As of the end of 2014, we employed more than 15.5 thousand people. Most of them are working in our business units in the Northwestern Federal District. 20% of our employees are working in other regions of presence – the Moscow region, Yekaterinburg and Ukraine. Blue-collar workers account for 70% of our personnel. An average employment period is 6 years. An average age of our employees is 41 years.

Motivation programmes

Our subsidiaries use contemporary motivation techniques aimed to improve personnel efficiency and encourage personal involvement in the company's goals. The incentive programmes for top managers answering the company's annual and medium-term goals are being successfully implemented. In 2014, we introduced a long-term share-based incentive programme for top managers aimed to enhance the company's performance and create greater shareholder value. We also introduce motivation programmes for mid-level managers and specialists.

We guarantee our employees stable income and timely payment of competitive salaries. In 2014, the company's payroll was around RUB 9 billion. The average monthly salary was RUB 42,120.

We also use non-financial motivation techniques, including the corporate awards of LSR Group. In 2014, 327 employees of LSR Group were given corporate awards including 7 awarded with the highest corporate award, the Gold medal 'Best in LSR'.

The achievements of our employees have been acknowledged with various government and industry awards. In 2014, 100 employees of LSR Group were awarded for their achievements in construction, building materials industry and contribution to the development of the construction sector.

Social security

The company's social policy is based on the efficient labour management and social security of our people. It fully complies with the existing labour regulations including those related to social benefits and social security of all categories of employees.

Great attention is paid to the employees' welfare, including 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. Our employees are also provided with health resort treatment benefits.

In 2014, we introduced a number of programmes aimed to increase availability of housing for our employees. The programmes provide discounts on apartments constructed by our business units. In 2014, 214 employees of LSR Group used this opportunity to improve their living conditions.

"Growing together with LSR"

In 2014, the children's project 'Growing together with LSR' received large-scale implementation. The project is aimed at increasing awareness of LSR Group brand, the popularisation 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 programme are 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 project was implemented in all regions of LSR Group operations. Cultural and educational activities, trips and entertainment programmes for the children of employees were carried out within framework of the project at LSR Group businesses and construction sites. Elements of stylized design of children's playgrounds, kindergartens and other social facilities have been developed and approved. And now LSR Group use these designs to build various projects.. In 2014 8 kindergartens with 1,435 places available for children in the Leningrad region alone were built thanks to the project "Growing together with LSR". Charitable and volunteer activities aimed at supporting orphanages and educational institutions are also a part of the programme 'Growing together with LSR'. Work with specialised 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 2014, our centralized Personnel Evaluation and Development Centre was engaged in a number of programmes aimed at development of the company's management pool. In particular we continued our programme «Tools of efficient work» designed for promising employees who may soon become managers. In 2014, 38 employees were trained under this programme.

Apart from that we introduced a programme Business Erudite which includes 3 courses - Corporate Finance and Economics, Marketing Management and Project Management. During the year 45 employees completed these courses.

A group of 7 leaders, key managers, successfully passed the training programme for the semi-annual Mini MBA Economics and Company Management'.

A Professional Assessment Centre is a part of our Personnel Evaluation and Development Centre providing qualification certificates which allow employees to perform certain types of works.

The subsidiaries of LSR Group have their own training centres aimed to satisfy the company's demand for qualified professionals. In 2014, more than 1,000 employees were trained in such centres. The total number of employees trained during 2014 exceeded 3 thousand.

Increasing labour efficiency is a priority task for the company. In order to promote development and implementation of business ideas and innovations we introduced the annual Development award. In 2014 136 applications were submitted including 51 applications that were approved for further detailed analyses and implementation. The final shortlist included 21 projects. The financial effect from the innovation projects implemented in 2013-2014 was estimated at RUB 21.7 million.

Information on the policy of the Company in the field of environmental protection and the environmental policy of the Company.

Being one of the largest corporations in North-Western Russia, LSR Group is fully aware of its environmental responsibilities that include rational use of natural resources and preservation of the environment. We carry out activities aimed to prevent pollution and rehabilitate damaged ecosystems.

Implementation of Programmes to Protect the Environment

During 2014, our subsidiaries were carrying out the pre-scheduled environmental activities. Development of new technologies, introduction of environment-friendly solutions, reduction of fuel consumption and pollutant emissions are an integral part of our environmental policy.

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 our subsidiaries obtain permits and licenses necessary for their operations.

List of transactions effected by the stock company in the reporting year to be recognised as large transactions under the Federal Law on Joint Stock Companies and other transactions subject to the large transactions approval regime under the company's articles of association

In the year 2014, OJSC LSR Group effected no transactions to be recognised as large transactions under the Federal Law on Joint Stock Companies.

The Articles of Association of OJSC LSR Group contains no criteria defining other transactions subject to the large transactions approval regime under the Company's Articles of Association.

List of transactions effected by the stock company in the reporting year to be recognised as non-arm's length transactions under the Federal Law on Joint Stock Companies

List of transactions effected by OJSC LSR Group in the year 2014 to be recognised as non-arm's length transactions under the Federal Law on Joint Stock Companies, which were effected in the usual course of business of the Company and approved by a resolution of the general meeting of shareholders:				
No. Item no.	date of transaction	Parties to the transaction	Subject of the transaction	Value
1.	10.01.2014	OJSC LSR. Reinforced Concrete-NW (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	50,000,000 roubles
2.	13.01.2014	CJSC UM-260 (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	130,000,000 roubles
3.	19.06.2014	LLC LSR. Cement-NW (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	1,500,000,000 roubles
4.	29.04.2014	CJSC LSR-Aggregates and Ready-mix Concrete (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	283,000,000 roubles
5.	13.05.2014	LLC LSR. Construction-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	340,500,000 roubles
6.	27.02.2014	LLC BaltStroyKomplekt (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	71,500,000 roubles
7.	07.03.2014	LLC Zagorodnaya 71 (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	2,700,000 roubles
8.	26.03.2014	CJSC A Plus Estate (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	29,950,000 roubles
9.	28.03.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	2,000,000,000 roubles
10.	17.02.2014	OJSC SKV St. Petersburg (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	1,000,000,000 roubles
11.	17.02.2014	LLC LSR. Real Estate-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	1,000,000,000 roubles
12.	14.02.2014	LLC LSR (the vendor)	conclusion of contract of sale for share 18.3021% of LLC LSR. Construction-Urals	56,000,000 roubles
13.	01.03.2014	LLC LSR. Construction-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	300,000,000 roubles
14.	20.03.2014	LSR Europe GmbH (the receiving party)	Agreement on the transfer of property - 100% of the share capital of LLC AEROK	1,372,320,000 roubles
15.	10.06.2014	OJSC Sberbank of Russia (the bank), LLC LSR. Bricks and Aerated Concrete-NW (the beneficiary)	the pledgor undertakes to be responsible to the bank for execution by the debtor of obligations under the credit agreement	3,000,000,000 roubles
16.	07.04.2014	Bank VTB OJSC (the bank), LLC LSR. Construction-Urals as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	127,088,538 roubles
17.	18.04.2014	JSCB ROSSIYSKIY KAPITAL (OJSC) (the bank), LSR. Bricks and Aerated Concrete-M» (beneficiary)	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	5,000,000 roubles
18.	19.06.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	6,000,000,000 roubles
19.	05.03.2014	LLC AvtoKomBalt (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	410,000,000 roubles

20.	09.06.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	1,960,000,000 roubles
21.	26.05.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	640,000,000 roubles
22.	13.05.2014	CJSC UM-260 (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	10,000,000 roubles
23.	14.04.2014	LLC LSR (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	500,000,000 roubles
24.	16.04.2014	LLC LSR. Real Estate-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	300,000,000 roubles
25.	16.04.2014	LLC LSR. Real Estate-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	500,000,000 roubles
26.	16.04.2014	OJSC SKV St. Petersburg (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	200,000,000 roubles
27.	16.05.2014	CJSC LSR. Real Estate-Moscow	Conclusion of contract of sale for 385 shares of CJSC LSR. Real Estate Moscow	3,885.63 roubles

Substantiation of transactions as non-arm's length ones:

Substantiation of non-arm's length status: Affiliates of STREETLINK LIMITED, a shareholder of the Company, acted as parties/beneficiaries to the transactions.

List of transactions effected by OJSC LSR Group in the year 2014 to be recognised as non-arm's length transactions under the Federal Law on Joint Stock Companies, which were effected in the usual course of business of the Company and approved by a resolution of the general meeting of shareholders:				
№ Item no.	date of transaction	Parties to the transaction	Subject of the transaction	Value
1.	02.07.2014	OJSC SKV St. Petersburg (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	4,035,000,000 roubles
2.	02.07.2014	LLC LSR. Real Estate-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	3,000,000,000 roubles
3.	18.07.2014	LLC LSR. Real Estate-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	2,200,000,000 roubles
4.	01.08.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	8,000,000,000 roubles
5.	01.08.2014	LLC LSR. Construction-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	2,000,000,000 roubles
6.	19.08.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	2,300,000,000 roubles
7.	25.09.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	5,500,000,000 roubles
8.	18.11.2014	Bank VTB OJSC (the bank), OJSC LSR. Construction-NW (the beneficiary)	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	3,000,000,000 roubles
9.	01.10.2014	OJSC SKV St. Petersburg (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	1,450,000,000 roubles
10.	09.10.2014	LLC LSR. Real Estate-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	3,000,000,000 roubles
11.	18.11.2014	CJSC LSR. Real Estate-M (the vendor)	Conclusion of the contract of sale for 20,000 shares of LLC LSR. Real Estate-M (add. Issue)	2,100,000,000 roubles
12.	22.12.2014	LLC LSR. Real Estate-NW (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	4,000,000,000 roubles

Substantiation of transactions as non-arm's length ones:

[1]Substantiation of non-arm's length status in all other transactions: Affiliates of STREETLINK LIMITED, a shareholder of the Company, acted as parties/beneficiaries to the transactions.

List of transactions effected by OJSC LSR Group in the year 2014 to be recognised as non-arm's length transactions under the Federal Law on Joint Stock Companies, which were approved by resolutions of the Board of Directors:				
№ Item	date of transaction	Parties to the transaction	Subject of the transaction	Value

m no.				
1.	29.01.2014	OJSC Sberbank of Russia (the bank), LSR LLC. Construction-Urals as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	134, 164, 999.50 roubles
2.	21.07.2014	OJSC ROSSIYSKY CAPITAL as the bank, CJSC LSR. Aggregates and Ready-mix Concrete as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	31, 407, 482.40 roubles
3.	05.09.2014	UBRD, OJSC (the bank), CJSC LSR. Real Estate-Urals as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	17, 344, 000 roubles
4.	27.06.2014	CJSC LSR. Real Estate-Urals (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	720, 000, 000 roubles
5.	27.06.2014	LLC LSR. Bricks and Aerated Concrete-NW (the vendor)	The vendor shall agree to transfer the bill to the buyer, and the buyer shall agree to accept the bill and pay the specified contract price for it.	130, 496, 569.62 roubles
6.	08.07.2014	CJSC LSR-Aggregates and Ready-mix Concrete (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	137, 000, 000 roubles
7.	08.07.2014	OJSC LSR. Reinforced Concrete-NW (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	26, 000, 000 roubles
8.	08.07.2014	OJSC LSR. Tower Cranes-NW (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	25, 000, 000 roubles
9.	14.07.2014	CJSC A Plus Estate (the vendor)	conclusion of contract of sale of 8,123 shares of CJSC A Plus Estate (add. Issue)	162, 460, 000 roubles
10.	28.07.2014	OJSC LSR (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	395, 000, 000 roubles
11.	01.09.2014	OJSC Stroykorporatsiya (the lender)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	20, 000, 000 roubles
12.	16.09.2014	LLC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	280, 000, 000 roubles
13.	29.09.2014	CJSC LSR. Real Estate-Urals (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	600, 000, 000 roubles
14.	29.09.2014	Royal Gardens Hotel LLC (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	300, 000, 000 roubles
15.	18.11.2014	Bank VTB OJSC (the bank), OJSC LSR. Reinforced Concrete-NW (the beneficiary)	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	500, 000, 000 roubles
16.	18.11.2014	OJSC VTB Bank as the bank, CJSC LSR. Aggregates and Ready-mix Concrete as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	500, 000, 000 roubles
17.	18.11.2014	Bank VTB OJSC (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	51, 686, 803.86 roubles
18.	18.11.2014	Bank VTB OJSC (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	17, 384, 210. 77 roubles
19.	05.12.2014	OJSC UBRD as the bank, CJSC LSR. Construction-Urals as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	51, 464, 526.35 roubles
20.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	243, 522, 180 roubles
21.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	701, 887, 275 roubles
22.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	633, 962, 700 roubles
23.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	679, 245, 750 roubles
24.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	769, 811, 850 roubles
25.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	800, 000, 550 roubles

26.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	805,032, 000 roubles
27.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	532, 830, 555 roubles
28.	27.11.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	349, 685, 775 roubles
29.	11.11.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	200, 000, 000 roubles
30.	28.11.2014	CJSC LSR. Real Estate-M (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	200, 000, 000 roubles
31.	28.11.2014	CJSC A Plus Estate (the lessor)	The Lessor shall transfer and the Lessee shall accept for rent the non-residential premises	4, 241, 380 roubles
32.	01.10.2014	OJSC MTO ARKHPROEKT (the lessor)	The Lessor shall transfer and the Lessee shall accept for rent the non-residential premises	3, 086 ,644 roubles
33.	09.10.2014	OJSC MTO ARKHPROEKT (the Lessor)	The Lessor shall transfer and the Lessee shall accept for rent the non-residential premises	40, 757, 200 roubles
34.	18.12.2014	LLC LSR. Construction-M (the Licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	41, 064, 000 roubles
35.	18.12.2014	LLC LSR. Bricks and Aerated Concrete-Moscow as licensees	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	8, 212, 800 roubles
36.	18.12.2014	CJSC LSR-Aggregates and Ready-mix Concrete (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	82,128,000 roubles
37.	30.12.2014	CJSC LSR. Real Estate-M (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	49, 560, 000 roubles
38.	18.12.2014	CJSC LSR. Real Estate-Urals (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	54, 374, 400 roubles
39.	18.12.2014	LLC LSR. Construction-Urals (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	39, 648,000 roubles
40.	30.12.2014	OJSC LSR. Tower Cranes-NW (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	11,752, 800 roubles
41.	18.12.2014	OJSC LSR. Reinforced Concrete-NW (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	36, 108,000 roubles
42.	18.12.2014	LLC LSR. Real Estate-NW (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	72, 216, 000 roubles
43.	18.12.2014	LLC LSR. Bricks and Aerated Concrete-NW (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	36, 715,200 roubles
44.	18.12.2014	LLC LSR. Construction-NW (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	131, 334, 000 roubles
45.	18.12.2014	OJSC SKV St. Petersburg (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	42, 126, 000 roubles
46.	18.12.2014	LLC LSR-Stroy (the licensee)	Supplementary Agreement to the Licensing Agreement to use the trade mark for 2015.	30, 727, 200 roubles
47.	12.12.2014	OJSC UBRD as the bank, CJSC LSR. Construction-Urals as the beneficiary	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	456, 511.49 roubles
48.	22.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW (the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
49.	22.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW (the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500,000,000 roubles
50.	23.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW (the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500,000,000 roubles
51.	23.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW (the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
52.	23.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW (the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
53.	23.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW (the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
54.	25.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW(the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000 ,000 roubles
55.	25.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW(the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
56.	25.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW (the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles

57.	25.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW(the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
58.	25.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW(the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
59.	25.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW(the beneficiary)	The guarantor guarantees the performance of all secured obligations undertaken by the borrower	500, 000, 000 roubles
60.	30.12.2014	OJSC Rosselkhozbank (the bank), LLC LSR. Real Estate-NW(the beneficiary)	The guarantor assumes the liability to the bank for debtor's performance of the obligations undertaken under the bank guarantee contract	67, 924, 575 roubles
61.	22.12.2014	CJSC LSR-Aggregates and Ready-mix Concrete (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	260, 000, 000 roubles
62.	17.12.2014	LLC LSR (the borrower)	The lender has transferred the funds to the Borrower, and the Borrower has undertaken to repay the loan to the Lender within the specified timeframe.	600, 000, 000 roubles

Substantiation of transactions as non-arm's length ones:

Substantiation of non-arm's length status: Affiliates of STREETLINK LIMITED, a shareholder of the Company, acted as parties/beneficiaries to the transactions.

A brief overview of the most significant transactions made by the Company and legal entities controlled by it (including related transactions made by the Company, by one and (or) several legal entities controlled by it) in the last year.

In April 2014 we acquired a large land plot of 175 ha, on the territory of the former "Rzhevka" airfield near St.Petersburg, to build around 1 million square metres of housing.

Also in April 2014 we won the auction for redevelopment of industrial areas of the ZiL plant in Moscow with a total area of 65 ha. It is planned to build 1.5 million square metres of housing there.

In July 2014 within the framework of a large-scale program of LSR Group for the redevelopment of its own land assets occupied by industrial enterprises we have signed a contract to acquire rights for land plots of around 4 hectares on Oktyabrskaya embankment in St. Petersburg. These land plots are located next to mass market residential project "Oktyabrskaya Naberezhnaya" (55 hectares, 558,900 square metres). Thanks to this purchase, the total area of the project will be increased to 650,000 square metres.

In August 2014 we acquired new residential project in Soltsevo district in Moscow with a total area of 990 thousand square metres.

In December 2014 we sold our cement plant in Slantsy, the Leningrad region. This deal is part of implementation of LSR Group strategy to focus on projects with highest returns on invested capital and fast growing real estate development business thus maximizing value for shareholders. LSR Group will use most of the proceeds to reduce its debt and make it 100% ruble based by the end of the year.

Also in December 2014 we have entered into 9 government contracts with Committee for city property management of St. Petersburg for purchase of apartments. The city acquired 1,653 apartments with a total area of 92,283.6 m², for a total price of RUB 5,159.1m in Novaya Okhta project. These apartments are scheduled for completion before 31 December 2015 and will be transferred to the government in June 2016.

Report on Compliance with the Principles and Recommendations of the Corporate Governance Code.

Statement of the Board of Directors of OJSC LSR Group regarding observance of the corporate governance principles secured by the Code of Corporate Governance in 2014.

The OJSC LSR Group seeks to follow the principles and recommendations laid down in the Code of Corporate Governance (hereinafter the Code).

The managing bodies of the Company perform their functions mainly following the principles provided by the Code, the most important of which is the strict protection of shareholders' and investors' rights. The Board of Directors of OJSC LSR Group pays special attention to the observance and protection of shareholders' rights.

Shareholders are entitled to participate in the management of the Company by adopting resolutions on the most important issues related to the business of the Company at the General Meeting of Shareholders.

Shareholders are guaranteed the right to participate in the distribution of profits by adopting a resolution on profit distribution at the Annual General Meeting of Shareholders.

OJSC LSR Group provides its shareholders every opportunity to review the information on the activities of the Company in accordance with the Federal Law "On Joint Stock Companies", the Federal Law "On Securities Market" and the regulatory acts of the Bank of Russia.

The Company's relationship with its shareholders and investors is based on a reasonable balance between the interests of the Company as a business entity and its interests as a joint stock company concerned about the protection of the rights and lawful interests of its shareholders.

Information regarding observance of the corporate governance principles

No.	Principles of corporate governance secured by the Code of Corporate Governance	Information regarding observance of the principle	Comments (explanations) in case of inobservance or incomplete observance of the principle
I.	Rights of shareholders and equality of the terms and conditions for shareholders when implementing their rights		
1.1.	The Company should ensure equal and fair treatment of all its shareholders in the course of exercise by them of their rights to participate in the management of the Company.	observed partially	
1.1.1.	The Company should create most favourable conditions for its shareholders enabling them to participate in the General Meeting and develop informed positions on issues on its agenda, as well as provide them with the opportunity to coordinate their actions and express their opinions on issues being discussed.	observed	
1.1.2.	Procedures for notification of the General Meeting and provision of materials for it should enable the shareholders to get properly prepared for participation therein.	observed partially	The Company plans to post meeting materials for the General Meeting on its website. When preparing the General Meeting agenda, the Company plans to indicate who proposed each of the issues therein, and regarding the candidates proposed for election to the company's bodies, who proposed them.
1.1.3.	During the preparation for and holding of the General Meeting, the shareholders should be able to freely and timely receive information about	observed partially	In addition to the mandatory materials stipulated by law, the Company also plans to provide the shareholders with the opinion of the Board of Directors regarding the items on

	the Meeting and its materials, to pose questions to members of the Company's executive bodies and Board of Directors, and to communicate with each other.		the agenda.
1.1.4.	There should be no unjustified difficulties preventing shareholders from exercising their right to demand that a General Meeting be convened, nominate candidates to the Company's governing bodies, and to place proposals on its agenda.	observed partially	The Company, based on its technical capabilities, plans to create a convenient procedure which will allow the shareholders to require convening a General Meeting, nominate candidates to the Company's bodies and propose agenda items using state-of-the-art electronic devices for communication and information exchange.
1.1.5.	Each shareholder should be able to freely exercise his right to vote in a straightforward and most convenient way.	observed partially	The Company in the agreement with the registrar to render services in performing the functions of the accounting committee plans to provide for possible filing of a voting document, an electronic document with electronic signature of the nominal holder (authorised individual of the nominal holder) by sending of which the shareholder is entitled to participate in the meeting. By the decision of the Company's Annual Meeting of Shareholders in 2015 it is planned to approve the new edition of the Regulation on conducting the Company's General Meeting of Shareholders by which the right was secured for an individual who filled out the voting ballot to demand verification of the copy of the ballot filled out by him by the company's accounting committee (by representatives of the registrar performing the functions of the accounting committee) before the General Meeting of Shareholders ends. By the decision of the Company's Annual Meeting of Shareholders in 2015 it is planned to approve the new editions of the Regulation on conducting the General Meeting of Shareholders and Company Charter which will secure the Company's obligation to post on its website the General Meeting agenda minutes no later than three days from the date of their compilation.
1.1.6.	Procedures for holding a General Meeting set by the Company should provide equal opportunity to all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.	observed partially	The Company plans to invite to the General Meeting: - representatives of the Board of Directors' Audit Committee; - candidates nominated to the Board of Directors. The Company is developing the possibility and expediency of using telecommunication devices to ensure remote participation of shareholders in the General Meeting.
1.2.	The shareholders should have equal and fair opportunity to participate in the Company's profits by means of receiving dividends.	observed	
1.2.1.	The Company should develop and put in place a transparent and clear mechanism for determining the amount of dividends and their	observed	

	payment.		
1.2.2.	The Company should not make a decision on the payment of dividends, if such decision, without formally violating limits set by law, is unjustified from the economic point of view and might lead to the formation of false assumptions about the company's activity.	observed	
1.2.3.	The Company shall not allow deterioration of the dividend rights of its existing shareholders.	observed	
1.2.4.	The Company should strive to rule out any ways through which its shareholders can obtain any profit or gain at the Company's expense other than dividends and distributions of its liquidation value.	observed	
1.3.	The system and practices of corporate governance should ensure equal terms and conditions for all shareholders owning shares of the same class (category) in the Company, including minority and foreign shareholders as well as their equal treatment by the Company.	observed	
1.3.1.	The Company should create conditions which would enable its governing bodies and controlling persons to treat each shareholder fairly, in particular, which would rule out the possibility of any abuse of minority shareholders by major shareholders.	observed	
1.3.2.	The Company should not perform any acts which will or might result in artificial reallocation of corporate control therein.	observed	
1.4.	The shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in a non-onerous manner.	observed	
II.	Company's Board of Directors		
2.1.	The Board of Directors shall be in charge of strategic management of the Company, determine major principles of and approaches to creation of a risk management and internal control system within the Company, monitor the activity of the Company's executive bodies, and carry out other	observed partially	

	key functions.		
2.1.1.	The Board of Directors should be responsible for decisions to appoint and remove members of executive bodies, including in connection with their failure to properly perform their duties. The Board of Directors should also procure that the Company's executive bodies act in accordance with an approved development strategy and main business goals of the Company.	observed partially	The Company's Board of Directors does not currently appoint executive bodies of the entities under its control. Nevertheless, the sole executive body of the majority of companies under the Company's control is the managing company controlled by the Company, the manager of which is a member of the Company's Board of Directors.
2.1.2.	The Board of Directors should establish basic long-term targets of the Company's activity, evaluate and approve its key performance indicators and principal business goals, as well as evaluate and approve its strategy and business plans in respect of its principal areas of operations.	observed partially	By the decision of the Annual Meeting of Shareholders in 2015 it is planned to approve the Regulation on the Board of Directors and the Company's Charter in the new edition in which the competence of the Board of Directors will be supplemented with the authority to define the development strategy and assess the performance results of the companies under control.
2.1.3.	The Board of Directors should determine principles of and approaches to creation of the risk management and internal control system in the Company.	observed partially	By the decision of the Annual Meeting of Shareholders in 2015 it is planned to approve the Regulation on the Board of Directors and the Company's Charter in the new edition in which the competence of the Board of Directors will be supplemented by the authority to approve the general policy of risk management and internal control.
2.1.4.	The Board of Directors should determine the Company's policy on remuneration due to and/or reimbursement of costs incurred by its board members, members of its executive bodies and other key managers.	observed	
2.1.5.	The Board of Directors should play a key role in prevention, detection and resolution of internal conflicts between the Company's bodies, shareholders and employees.	observed	
2.1.6.	The Board of Directors should play a key role in procuring that the Company is transparent, discloses information in full and in due time, and provides its shareholders with unhindered access to its documents.	observed	
2.1.7.	The Board of Directors should monitor the Company's corporate governance practices and play a key role in its material corporate events.	observed	
2.2.	The Board of Directors should be accountable to the company's shareholders.	observed	
2.2.1.	Information about the Board of	observed	

	Directors' work should be disclosed and provided to the shareholders.		
2.2.2.	The chairman of the Board of Directors must be available to communicate with the Company's shareholders.	observed	
2.3.	The Board of Directors should be an efficient and professional governing body of the Company which is able to make objective and independent judgments and pass resolutions in the best interests of the Company and its shareholders.	observed partially	
2.3.1.	Only persons with impeccable business and personal reputation should be elected to the Board of Directors; such persons should also have knowledge, skills, and experience necessary to make decisions that fall within the jurisdiction of the Board of Directors and to perform its functions efficiently.	observed	
2.3.2.	Board members should be elected pursuant to a transparent procedure enabling the shareholders to obtain information about respective candidates sufficient for them to get an idea of the candidates' personal and professional qualities.	observed partially	<p>The Company did not provide the 2014 Annual Meeting of Shareholders with any information about the candidates to the Board of Directors in terms of the positions occupied by them for a period of no less than the last five years.</p> <p>The Company plans to provide this information about the candidates for the Board of Directors to the 2015 Annual Meeting of Shareholders.</p> <p>The minutes of the 2014 Annual General Meeting of Shareholders did not include information about which of the elected members to the Board of Directors were elected as independent directors.</p> <p>In the minutes of the 2015 Annual General Meeting of Shareholders it is planned to include information about which of the elected members to the Board of Directors were elected as independent directors.</p>
2.3.3.	The composition of Board of Directors should be balanced, in particular, in terms of qualifications, expertise, and business skills of its members. The Board of Directors should enjoy the confidence of the shareholders.	observed	
2.3.4.	The membership of the Board of Directors of the Company must enable the board to organise its activities in a most efficient way, in particular, to create committees of the Board of Directors, as well as to enable substantial minority shareholders of the Company to elect a candidate to	observed	

	the Board of Directors for whom they would vote.		
2.4.	The Board of Directors should include a sufficient number of independent directors.	observed partially	
2.4.1.	An independent director should mean any person who has required professional skills and expertise and is sufficiently able to have his/her own position and make objective and bona fide judgments, free from the influence of the Company's executive bodies, any individual group of its shareholders or other stakeholders. It should be noted that, under normal circumstances, a candidate (or an elected director) may not be deemed to be independent, if he/she is associated with the Company, any of its substantial shareholders, material trading partners or competitors, or the government.	observed	
2.4.2.	It is recommended to evaluate whether candidates nominated to the Board of Directors meet the independence criteria as well as to review, on a regular basis, whether or not independent board members meet the independence criteria. When carrying out such evaluation, substance should take precedence over form.	observed partially	By the decision of the Annual Meeting of Shareholders in 2015 it is planned to approve the new edition of the Regulation on the Board of Directors which secures the procedure to be applied in the case when a member of the Board of Directors has lost the status of an independent director.
2.4.3.	Independent directors should account for at least one-third of all directors elected to the Board of Directors.	observed partially	The number of independent directors was less than one third of the elected makeup of the Company's Board of Directors in 2014. The Company plans to increase the number of independent directors to one third of the elected makeup of the Board of Directors.
2.4.4.	Independent directors should play a key role in prevention of internal conflicts in the Company and performance by the latter of material corporate actions.	observed	
2.5.	The Chairman of the Board of Directors shall promote more effective implementation of the functions assigned to the Board of Directors.	observed partially	
2.5.1.	It is recommended to either elect an independent director to the position of the chairman of the Board of Directors or identify the senior independent director among the Company's independent directors who would coordinate work of the independent directors and liaise with the chairman of the Board of Directors.	observed partially	The Chairman of the Board of Directors was not an independent director
2.5.2.	The board chairman should ensure that board meetings are held in a constructive atmosphere and that any items on the meeting agenda are	observed	

	discussed freely. The chairman should also monitor fulfillment of decisions made by the Board of Directors.		
2.5.3.	The chairman of the Board of Directors should take any and all measures as may be required to provide the board members in a timely fashion with information required to make decisions on issues on the agenda.	observed	
2.6.	Board members must act reasonably and in good faith in the best interests of the Company and its shareholders, being sufficiently informed, with due care and diligence.	observed partially	
2.6.1.	Acting reasonably and in good faith means that board members should make decisions considering all available information, in the absence of a conflict of interest, treating shareholders of the company equally, and assuming normal business risks.	observed partially	By the decision of the Annual Meeting of Shareholders in 2015 it is planned to approve new editions of the Regulation on the Board of Directors and the Charter in which the competence of the Board of Directors will be supplemented by the authority to define the Company's policy regarding ownership of the Company's shares and shares (stakes) of legal entities under control of the Company by members of the Board of Directors. In 2014 there was no insurance of the liability of the Board of Directors members and members of the executive bodies at the expense of the Company's own resources.
2.6.2.	Rights and duties of board members should be clearly stated and documented in the Company's internal documents.	observed	
2.6.3.	Board members should have sufficient time to perform their duties.	observed	
2.6.4.	All board members should have equal opportunity to access the Company's documents and information. Newly elected board members should be provided with sufficient information about the Company and work of its Board of Directors as soon as practicable.	observed	
2.7.	Meetings of the Board of Directors, preparation for them, and participation of board members therein should ensure efficient work of the board.	observed partially	
2.7.1.	It is recommended to hold meetings of the Board of Directors as needed, with due account of the Company's scope of activities and its then current goals.	observed	
2.7.2.	It is recommended to develop a procedure for preparing for and holding meetings of the board of directors and set it out in the company's internal documents. The above procedure should enable the shareholders to get prepared properly for such meetings.	observed partially	The Company's Charter stipulates the right of a shareholder(s) with 10% and more voting shares to demand the convening of a meeting of the Board of Directors.
2.7.3.	The form of a meeting of the Board of	observed	Not all issues of the Board of Directors'

	Directors should be determined with due account of importance of issues on the agenda of the meeting. Most important issues should be decided at meetings held in person.	partially	competence, recommended by the Code for review in a meeting held in person were reviewed in this form. This is explained by the Company's attempt to create comfortable conditions for all board members to perform their duties, especially regarding the planned increase of the number of independent board members.
2.7.4.	Decisions on most important issues relating to the Company's business should be made at a meeting of the Board of Directors by a qualified majority vote or by a majority vote of all elected board members.	observed	By decision of the Annual Meeting of Shareholders in 2015 it is planned to approve the new editions of the Regulation on the Board of Directors and Charter to secure the obligation of the Board of Directors to make decisions on the most important issues of the Company's activity by majority vote of all elected board members. The actually indicated decisions in 2014 were made by majority vote of all elected board members.
2.8.	The Board of Directors should form committees for preliminary consideration of most important issues of the Company's business.	observed partially	
2.8.1.	For the purpose of preliminary consideration of any matters of control over the Company's financial and business activities, it is recommended to form an audit committee comprised of independent directors.	observed partially	The Audit Committee of the Board of Directors consisted of 2 independent directors and 1 non-executive director.
2.8.2.	For the purpose of preliminary consideration of any matters of development of efficient and transparent remuneration practices, it is recommended to form a remuneration committee comprised of independent directors and chaired by an independent director who should not concurrently be the board chairman.	observed partially	The HR and Remunerations Committee of the Board of Directors consisted of 2 independent directors and 1 non-executive director, and headed by an independent director.
2.8.3.	For the purpose of preliminary consideration of any matters relating to human resources planning (making plans regarding successor directors), professional composition and efficiency of the Board of Directors, it is recommended to form a nominating committee (a committee on nominations, appointments and human resources) with a majority of its members being independent directors.	observed	The competence of the HR and Remunerations Committee of the Board of Directors combines the jurisdictions defined by the Code separately for the Nominations Committee and the Remunerations Committee.
2.8.4.	Taking account of its scope of activities and levels of related risks, the Company should form other committees of its Board of Directors, in particular a strategy committee, an ethics committee, a risk management committee, a budget committee, a committee on health, safety and environment etc.	observed	The Company has created a Strategy and Investments Committee of the Board of Directors.
2.8.5.	The composition of the committees should be determined in such a way	observed	

	that it would allow a comprehensive discussion of issues being considered on a preliminary basis with due account of differing opinions.		
2.8.6.	The committee chairpersons should be informed regularly by the Board of Directors and its Chairman of the work of their committees.	observed	
2.9.	The Board of Directors shall ensure a quality assessment of its work, and that of its committees and members of the Board of Directors.	observed	
2.9.1.	The quality assessment of the Board of Directors' work should be aimed at determining how efficiently the Board of Directors, its committees and board members work, and whether their work meets the company's needs, as well as at making their work more intensive and identifying areas of improvement.	observed	
2.9.2.	Assessment of the work of the Board of Directors, committees and members of the Board of Directors shall be made on a regular basis at least once a year. To carry out an independent evaluation of the quality of the Board of Directors' work, it is recommended to retain a third party entity (consultant) on a regular basis, at least once every three years.	observed	
III.	Company's corporate secretary		
3.1.	The Company's corporate secretary shall be responsible for efficient interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders, and support of efficient work of its Board of Directors.	observed	
3.1.1.	The corporate secretary should have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and should enjoy the trust of the shareholders.	observed	
3.1.2.	The corporate secretary should be sufficiently independent from the company's executive bodies and be vested with powers and resources required to perform his/her tasks.	observed	
IV.	The remuneration system for the members of the Board of Directors, executive bodies and other key company managers		
4.1.	The level of remuneration paid by the company should be sufficient to enable it to attract, motivate, and retain persons having required skills and qualifications. Remuneration due to board members, the executive bodies, and other key managers of the company should be paid in accordance	observed	

	with a remuneration policy approved by the Company.		
4.1.1.	It is recommended that the level of remuneration paid by the Company to its board members, executive bodies, and other key managers should be sufficient to motivate them to work efficiently and enable the Company to attract and retain knowledgeable, skilled, and duly qualified persons. The Company should avoid setting the level of remuneration any higher than necessary, as well as an excessively large gap between the level of remuneration of any of the above persons and that of the Company's employees.	observed	
4.1.2.	The Company's remuneration policy should be developed by its remuneration committee and approved by the Board of Directors. With the help of its remuneration committee, the Board of Directors should monitor implementation of and compliance with the remuneration policy by the Company and, should this be necessary, review and amend the same.	observed	
4.1.3.	The Company's remuneration policy should provide for transparent mechanisms to be used to determine the amount of remuneration due to members of the Board of Directors, the executive bodies, and other key managers of the Company, as well as to regulate any and all types of payments, benefits, and privileges provided to any of the above persons.	observed	
4.1.4.	The Company is recommended to develop a policy on reimbursement of expenses which would contain a list of reimbursable expenses and specify service levels provided to members of the Board of Directors, the executive bodies, and other key managers of the Company. Such policy can form part of the Company's policy on compensations.	observed	
4.2.	The remuneration system of the Board of Directors members shall ensure that the financial interests of the directors converge with the long-term financial interests of the shareholders.	observed	
4.2.1.	A fixed annual fee shall be a preferred form of monetary remuneration of the board members. It is not advisable to pay a fee for participation in individual meetings of the Board of Directors or its committees. It is not advisable to use any form of short-term incentives or additional financial incentives in respect of board members.	observed	

4.2.2.	Long-term ownership of shares in the Company contributes most to aligning financial interests of board members with long-term interests of the Company's shareholders. However, it is not recommended to make the right to dispose of shares dependent on the achievement by the Company of certain performance results; nor should board members take part in the Company's option plans.	observed	
4.2.3.	It is not recommended to provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.	observed	
4.3.	The system of remuneration due to the executive bodies and other key managers of the Company should provide that their remuneration is dependent on the Company's performance results and their personal contributions to the achievement thereof.	observed partially	
4.3.1.	Remuneration due to the executive bodies and other key managers of the Company should be set in such a way as to procure a reasonable and justified ratio between its fixed portion and its variable portion that is dependent on the Company's performance results and employees' personal (individual) contributions to the achievement thereof.	observed	
4.3.2.	Companies whose shares are admitted to trading at organised markets are recommended to put in place a long-term incentive programme for the Company's executive bodies and other key managers involving the Company's shares (or options or other derivative financial instruments the underlying assets for which are the Company's shares).	observed partially	A long-term incentive program using Company shares was developed, approved by the Company Board of Directors and introduced upon the recommendations of the Bank of Russia for use by shareholder companies of the Code of Corporate Governance. Pursuant to the incentive program using the Company's shares, the right to sell shares occurs no earlier than within one year from the time of their placement.
4.3.3.	The amount of severance pay (so-called "golden parachute") payable by the Company in the event of early dismissal of an executive body or other key manager at the initiative of the Company, provided that there have been no bad faith actions on the part of such person, should not exceed two times the fixed portion of his/her annual remuneration.	observed	
V.	The system of risk management and internal control		
5.1.	The Company should have in place an efficient risk management and internal control system designed to provide reasonable confidence that the	observed partially	

	Company's goals will be achieved.		
5.1.1.	The Company's Board of Directors shall define the principles and approaches to setting up a system of risk management and internal control in the Company.	observed partially	By the decision of the Annual Meeting of Shareholders in 2015 it is planned to approve the new editions of the Regulation on the Company Board of Directors and the Charter in which the competence of the Board of Directors was supplemented by the authority to approve the general policy for risk management and internal control of the Company.
5.1.2.	The company's executive bodies should ensure the establishment and continuing operation of the efficient risk management and internal control system in the company.	observed	
5.1.3.	The Company's risk management and internal control system should enable one to obtain an objective, fair and clear view of the current condition and prospects of the Company, integrity and transparency of its accounts and reports, and reasonableness and acceptability of risks being assumed by the Company.	observed	
5.1.4.	The Board of Directors is recommended to take required and sufficient measures to procure that the existing risk management and internal control system of the Company is consistent with the principles of and approaches to its creation as set forth by the Board of Directors and that it operates efficiently.	observed	
5.2.	To independently evaluate, on a regular basis, reliability and efficiency of the risk management and internal control system and corporate governance practices, the Company should arrange for internal audits.	observed	
5.2.1.	It is recommended that internal audits be carried out by a separate structural division (internal audit department) to be created by the Company or through retaining an independent third-party entity. To ensure the independence of the internal audit department, it should have separate lines of functional and administrative reporting. Functionally, the internal audit department should report to the Board of Directors, while from the administrative standpoint, it should report directly to the Company's one-person executive body.	observed	
5.2.2.	When carrying out an internal audit, it is recommended to evaluate efficiency of the internal control system and the risk management system, as well as to evaluate corporate governance and apply generally accepted standards of internal auditing.	observed	
VI.	Disclosure of information regarding the company, and the company's information policy		

6.1.	The Company and its activity should be transparent to its shareholders, investors and other stakeholders.		
6.1.1.	The Company should develop and implement an information policy enabling the Company to efficiently exchange information with its shareholders, investors, and other stakeholders.	observed	
6.1.2.	The Company should disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	observed partially	The Company plans to undertake possible efforts to introduce the practice of formalising plans of an individual controlling the company, in a special memorandum which the Company plans to disclose.
6.2.	The Company should disclose, on a timely basis, full, updated and reliable information about itself so as to enable its shareholders and investors to make informed decisions.	observed partially	
6.2.1.	The Company should disclose information in accordance with the principles of regularity, consistency and timeliness, as well as accessibility, reliability, completeness and comparability of disclosed data.	observed	
6.2.2.	The Company is advised against using a formalistic approach to information disclosure; it should disclose material information on its activities, even if disclosure of such information is not required by law.	observed partially	The Company did not compile a report on sustainable development in accordance with the internationally recognised standards. The Company plans to introduce the practice of preparing and disclosing this report. The Company plans to disclose the results of the technical audit, quality control system audit, results of the certification of the management quality system for compliance with international standards.
6.2.3.	The Company's annual report, as one of the most important tools of its information exchange with its shareholders and other stakeholders, should contain information enabling one to evaluate the Company's performance results for the year.	observed partially	The Company's 2014 annual report included neither the annual financial statement compiled in accordance with the IFRS nor the auditor review of the statement, since as of the date of the pre-approval of the annual report by the Board of Directors, the audit of the financial statement had not been completed. The Company's 2014 annual report did not include information about the annual remuneration for the sole executive body because the indicated individual did not agree to disclose personal data.
6.3.	The Company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.	observed partially	
6.3.1.	Exercise by the shareholders of their right to access the Company's documents and information should not be unreasonably burdensome.	observed partially	The Company currently does not accept requests from shareholders to provide information in electronic form and does not respond to electronic requests from shareholders.

			In the near future, the Company plans to develop a Regulation on information policy based on the recommendations of the Code of Corporate Governance.
6.3.2.	When providing information to its shareholders, the Company should maintain a reasonable balance between the interests of individual shareholders and its own interests related to the fact that the Company is interested in keeping confidential sensitive business information that might have a material impact on its competitiveness.	observed	
VII.	Material corporate actions		
7.1.	Any actions which will or may materially affect the Company's share capital structure and its financial position and, accordingly, the position of its shareholders ("material corporate actions") should be taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other stakeholders are observed.	observed	
7.1.1.	Material corporate actions shall be deemed to include reorganisation of the Company, acquisition of 30 or more percent of its voting shares (takeover), entering by the Company into any material transactions, increasing or decreasing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in rights of its shareholders or violation of their interests. It is recommended to include in the Company's Charter a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions should fall within the jurisdiction of the Company's Board of Directors.	observed	
7.1.2.	The Board of Directors should play a key role in passing resolutions or making recommendations relating to material corporate actions; for that purpose, it should rely on opinions of the Company's independent directors.	not applicable	The Company did not take any significant corporate actions in 2014.
7.1.3.	When taking any material corporate actions which would affect rights or legitimate interests of the Company's shareholders, equal terms and conditions should be ensured for all of the shareholders; if statutory mechanisms designed to protect the shareholder rights prove to be insufficient for that purpose, additional measures should be taken with a view to protecting the rights and legitimate interests of the Company's shareholders. In such instances, the	not applicable	The Company did not take any significant corporate actions in 2014.

	Company should not only seek to comply with the formal requirements of law but should also be guided by the principles of corporate governance set out in this Code.		
7.2.	The Company should have in place such a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and that would also guarantee that the shareholder rights are observed and duly protected in the course of taking such actions.	observed	
7.2.1.	When disclosing information about material corporate actions, it is recommended to give explanations concerning reasons for, conditions and consequences of such actions.	not applicable	The Company did not take any significant corporate actions in 2014.
7.2.2.	Rules and procedures in relation to material corporate actions taken by the Company should be set out in its internal documents.	observed	By the decision of the Annual Meeting of Shareholders in 2015 it is planned to approve the new editions of the Regulation on the Board of Directors and the Charter in which the competence of the Board of Directors will be supplemented with the authority to make decisions on the following issues regarding their approval by the majority of votes of all elected (but not ejected) board members. 1) transactions implying the sale of shares (stakes) of legal entities under control of the Company which are deemed to be of importance for it and result in the Company's loss of control over such legal entities; 2) property transactions of the Company or legal entities under its control (including mutually related transactions by the Company, by one and/or several legal entities under its control), the value of which exceeds the amount indicated in the company's Charter, or which is of significance for the company's business performance. The actually indicated 2014 decisions were made by the majority vote of all Board of Directors elected members.

Description of the model and practice of corporate governance in the Company

The model and practice of corporate governance in the Company were described in the annual report in the section "Corporate Governance in the Company".

The criteria by which the Company assessed observance of the corporate governance principles, secured by the Code of Corporate Governance, as well as the values of such criteria

The Company developed a methodology and criteria by which it assessed observance of the corporate governance principles, secured by the Code of Corporate Governance.

The methodology includes 115 issues which are assessed by a certain number of points. The issues are structure in 6 directions, in accordance with which the assessment was made:

1. Shareholders' rights
2. Board of Directors
3. Executive management
4. Transparency and disclosure of information

5. Risk management, internal control and internal audit

6. Corporate social responsibility and business ethics

Each direction is a certain percentage of the overall assessment.

The maximum point value which can be collected: 521 is 100%, which means excellent quality.

The Board of Directors approved the minimum permissible quality value of corporate governance not lower than 70%.

The criteria values by which the Company assessed the observance of the corporate governance principles

direction		assessment				
		number of issues	% direction in overall assessment	actual point	max. point	level of compliance
I.	Rights of shareholders	22	15%	61	79	77.22%
II.	Board of Directors	50	35%	137	180	76.11%
III.	Executive management	5	7%	28	38	73.68%
IV.	Transparency and disclosure of information	15	26%	111	134	82.84%
V.	Risk management, internal control and internal audit	17	12%	58	63	92.06%
VI.	Corporate social responsibility, business ethics	6	5%	23	27	85.19%
	Overall assessment	115	100%	418	521	80.23%

Explanation of the reasons, factors and/or circumstances due to which the company is not observing or not fully observing the corporate governance principles secured by the Code of Corporate Governance

In the Company's reporting period there was strict compliance with the Russian Federation legal requirements, listing rules of the stock exchange on which the Company's securities are quoted.

The Code of Corporate Governance (hereinafter – Code) was recommended by the Bank of Russia on 10/04/2014 and officially published in the "Bulletin of the Bank of Russia" on 18/04/2014.

In the reporting period, the Company began to develop and introduce its own internal documents based on Code recommendations.

In the reporting period, the following Company internal documents were developed and approved by the Board of Directors:

-The new edition of the Regulation on the OJSC LSR Group dividend policy.

-The new edition of the Regulation on the Audit Committee of the Board of Directors of OJSC LSR Group.

- Regulation on the corporate secretary of OJSC LSR Group.

The Company's corporate secretary was appointed during the reporting period.

At the beginning of 2015, the Company developed and the Board of Directors approved the following internal Company documents:

- Regulation on the HR and Remunerations Committee of the Board of Directors in the new edition.

- Regulations on insiders of OJSC LSR Group in the new edition.

- Documents regulating the Internal Audit Service activity of OJSC LSR Group in the new edition:

- Regulation on the Internal Audit Service of OJSC LSR Group;
- Regulations and procedures of internal audit of OJSC LSR Group.

New editions of the Charter, Regulations on the Board of Directors and Regulations on holding the Company's General Meeting of Shareholders will be introduced for approval by the decision of the Company's Annual Meeting of Shareholders.

The new editions of the Charter and Regulations took into consideration the Code recommendations.

The main reason for which the Company did not fully observe the corporate governance principles indicated above was the non-compliance of the Company's internal regulations with the Code recommendations.

Description of the mechanisms and instruments for corporate governance which are used by the joint stock company instead of (in place of) those recommended by the Code of Corporate Governance

Formalisation of relationships between participants in corporate governance by accepting regulatory documents and developing formal procedures;

Strict accountability of management to the Board of Directors, and the Board of Directors to the shareholders' meeting;

Solution to all important issues beyond the current governance, at the Board of Directors' meetings or shareholders' meetings;

Prevention of conflicts of interests and affiliations of management;

Exclusion of dependence of Board of Directors members on management;

Publication of the maximum amount of information regarding the Company's activity and financial indicators.

Planned (proposed) actions and measures of the shareholder company to improve the model and practice of corporate governance

In the near future, the Company plans to bring its internal regulations into compliance with the Code recommendations.

The Company plans to increase the number of independent directors.

The Company plans to develop a system of internal control and risk management.