

**Report of the Board of Directors of OJSC LSR Group
with statement of the reasoned position of the Company's Board of Directors
on agenda issues of the Annual General Meeting of Shareholders of the Company
07 April 2015**

On agenda QUESTION No. 1: "Approval of the Company annual progress report for 2014".

Recommendation:

The Board of Directors recommends approval of the annual report of OJSC LSR Group for 2014.

The policy of the Board of Directors:

The Board of Directors pre-approved the annual report.

The annual report was drafted in accordance with the Federal Law "On Joint Stock Companies" which takes into account the requirements of the Provisions on disclosure of information by issuers of issuer securities dated 30/12/2014, No. 454-P and recommendations of the Code of Corporate Governance (recommended by the letter of the Bank of Russia dated 10 April 2014 No. 06-52/2463).

The reliability of the data contained in the annual report was confirmed by the Auditing Committee of OJSC LSR Group.

On agenda QUESTION No. 2: "Approval of the annual accounting (financial) statement of the Company for 2014".

Recommendation:

The Board of Directors recommends approval of the annual accounting (financial) statement of OJSC LSR Group for 2014.

Position of the Board of Directors:

The Board of Directors reviewed the annual accounting (financial) statement of OJSC LSR Group by Russian accounting standards (RAS) for 2014. The Board of Directors also read the conclusion of the company auditor, LLC Audit-servis SPb regarding the accounting statement of OJSC LSR Group by RAS, the conclusion of the Auditing Committee of OJSC LSR Group based on the results of performance of OJSC LSR Group for 2014.

After analysing the submitted information and relying on the conclusion of the auditor and the Auditing Committee, the Board of Directors believes that the annual accounting (financial) statement reflects the financial position of OJSC LSR Group as of 31 December 2014, the results of its financial and business performance and movement of funds for 2014 in accordance with the RAS reliably in all important respects.

On agenda QUESTION No. 3: "Distribution of the Company's profit based on results of the fiscal 2014 year".

Recommendation:

The Board of Directors recommends distribution of the profit of OJSC LSR Group based on the results of fiscal 2014 year as follows:

- pay out dividends on common registered shares based on 2014 results in the amount of 78 (seventy-eight) roubles for one common registered share for a total of 8,036,356,770 (Eight billion thirty-six million three hundred fifty-six thousand seven hundred seventy) roubles, including, at the expense of undistributed profit from past years. Form of payment of dividends - cash. To determine the date on which persons having a right to receive dividends are determined – 18/04/2015;
- not to pay remuneration and compensation to members of the auditing committee during the period of fulfilment of their duties until the following Annual General Meeting of Shareholders of the Company;
- to approve the amount of remuneration and compensation to be paid to members of the Company's Board of Directors during the period of fulfilment of their duties in 2015-2016 in the amount of 31,160,000 (Thirty-one million one hundred sixty thousand) roubles.
- not to distribute the remaining net profit according to the results of financial year 2014.

For reference (in accordance with the accounting statement data of OJSC LSR Group on 31/12/2014 from RAS):

Undistributed profit as of 31/12/2014, which may be sent for payment of dividends is 14,288,894 thousand roubles including:

- net profit for 2014 4,704,577 thousand roubles.

The net profit sent for payment of dividends is 8,036,357 thousand roubles

(including undistributed profit from past years of 3,331,780 thousand roubles).

Position of the Board of Directors:

The Board of Directors reviewed the production and financial performance results of OJSC LSR Group for 2014, the current financial status, and priorities for production and social development of OJSC LSR Group in the future. After analysing the submitted information and relying on the conclusion of the Company auditor for the accounting (financial) statement in accordance with RAS, the Board of Directors believes that OJSC LSR Group may distribute the net profit by the aforementioned method.

The Board of Directors of OJSC LSR Group also believes that the Company has the conditions to announce dividends on Company shares for 2014 and payout of these dividends in accordance with Article 43 of the Federal Law "On Joint Stock Companies" with regard for the expectation that on the date of the decision to pay out dividends and on the date of payout of the dividends:

- OJSC LSR Group will not meet the signs of insolvency (bankruptcy) in accordance with Russian Federation law on insolvency (bankruptcy) and these signs will not appear in the Company as a result of payout of dividends;

-the value of the net assets of OJSC LSR Group will not be less than its equity and the reserve fund and will not fall below their amount as a result of the decision to pay out dividends and payout of dividends (as of 31/12/2014 the value of net assets of OJSC LSR Group is 40,587,901 thousand roubles and exceeds its equity and reserve fund by 40,560,855 thousand roubles).

Thus, the Board of Directors does not expect that announcement and payout of dividends based on the results of the 2014 fiscal year will negatively impact on the strategic potential of OJSC LSR Group in the long term outlook.

In accordance with clause 2 Article 64 of the Federal Law "On Joint Stock Companies", approval of remuneration for members of the Board of Directors, as well as expenses related to their fulfilment of functions as members of the Board of Directors is the competence of the General Meeting of Shareholders. Consequently, it is proposed to the General Meeting of Shareholders to approve the amount of remuneration and compensation for expenses of members of the Company's Board of Directors.

On agenda QUESTION No. 4: "Specification of the number of members of the Company Board of Directors".

Recommendation:

The Board of Directors recommends to determine the number of members of the Company Board of Directors as 9 (Nine).

Position of the Board of Directors:

In accordance with the Federal Law "On Joint Stock Companies" for joint stock companies with number of shareholders-owners of voting shares over one thousand the number of members of the Board of Directors may not be less than seven.

The Board of Directors believes that the number of members of the Company Board of Directors of 9 makes it more balanced, including based on the qualification of its members, their experience, knowledge and business qualities and will allow more effective organisation of the activity of the Board of Directors, including possible formation of Committees of the Board of Directors.

On agenda QUESTION No. 5: "Election of members of the Board of Directors of the Company".

Recommendation:

The Company Board of Directors recommends that the shareholders during cumulative voting uniformly distribute the votes among all the candidates.

The position of the Board of Directors:

The Company's interests dictate the need for participation in the Board of Directors of independent directors who have experience and knowledge in finances, construction, production of building materials and strategy of holdings which could be of practical assistance to the development of OJSC LSR Group as one of the leading participants in the Russian construction industry.

In accordance with the Provision on the Company Board of Directors, Oleg Vladimirovich Goncharov, Aleksey Petrovich Makhnev and Saydam Salakheddin meet the criteria for candidates to the Company Board of Directors.

However, the Company is no less interested in participation in the Board of Directors of executive directors who are Company employees and who, in addition to experience and professional qualification, have information about key Company assets, Company strategy, business practice adopted in the Company, and are very familiar with the organisational structure and key managers of the Company.

Thus, the Company is equally interested in electing all proposed candidates to membership in the Board of Directors.

On agenda QUESTION No. 6: "Election of members of the Company auditing committee".

Recommendation:

The Board of Directors recommends that the shareholders vote for the following candidates: Natalya Sergeevna Kletsova, Yuriy Ivanovich Terentyev, Lyudmila Valerievna Fradina.

Position of the Board of Directors:

In accordance with clause 20.2. of the Charter of OJSC LSR Group, the Auditing Committee consists of three elected members.

All candidates to the Auditing Committee are recognised professionals who use their business experience and knowledge in accounting, finances and control of financial and business activity to improve the efficiency of the auditing committee in executing its assigned tasks.

On agenda QUESTION No. 7: "Approval of the Company auditors for 2015".

Recommendation:

The Board of Directors recommends to approve LLC Audit-servis SPb as the auditor of the Russian accounting statement of OJSC LSR Group for 2015.

Position of the Board of Directors:

The auditor of the Company's accounting reporting prepared in accordance with RAS, approved by decision of the Annual Meeting of Shareholders in 2014, 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.

CJSC Audit-servis performed auditing evaluations of financial (accounting) statements of the LSR Group since 1999.

The area of expertise of CJSC Audit-servis is auditing of organisations performing capital investments in securities, construction, development, production of building materials and items, transport, and other services.

In 2005, 2009, and 2014, CJSC Audit-servis successfully conducted quality control of auditing activity.

The Committee for quality control of auditing activity and observing professional ethics by auditing organizations of SRO NP ACR issued a positive evaluation.

LLC Audit-servis is a member of the Self-Regulating Organisation of Auditors of the Non-commercial Partnership Auditor Chamber of Russia (PRNE: 11501010270).

Recommendation:

The Board of Directors recommends to approve CJSC KPMG as the auditor of the Company consolidated statement for 2015 prepared in accordance with International Financial Reporting Standards (IFRS).

Position of the Board of Directors:

CJSC KPMG performed the audit of the consolidated financial statement of the Company in accordance with IFRS since 2006.

CJSC KPMB is one of the leading international auditing companies included among the Big Four. CJSC KPMG offers services to a number of the largest Russian and international construction companies. These services include auditing according to international and Russian standards, consultation on taxation matters, legal and general questions, and performing consultations on financial and business management matters.

On agenda QUESTION No. 8: “Approval of the new edition of the Charter of the Company”.

Recommendation:

The Board of Directors recommends approval of the Charter of OJSC LSR Group in the new edition.

Position of the Board of Directors:

Approval of the Charter of OJSC LSR Group in the new edition was dictated by amendments to Russian Federation law and recommendations of the Code of Corporate Governance.

The document proposed for approval contains amendments related to the status of a publicly-held company, as well as expanded competence of the Board of Directors and toughens the procedure for making decisions on a number of issues within the competence of the Board of Directors.

On agenda QUESTION No. 9: “Approval of the new edition of the Regulations concerning the Board of Directors of the Company”.

Recommendation:

The Board of Directors recommends approval of the Regulations on the Board of Directors of OJSC LSR Group in the new edition.

Position of the Board of Directors:

Approval of the Regulations on the Board of Directors of OJSC LSR Group in the new edition is due to the need to bring the Regulations standards into compliance with the Listing Regulations of CJSC FB MMBV (registered by the Central Bank on 04/09/2014) and the Code of Corporate Governance (recommended by the Central Bank on 10/04/2014), as well as the need to improve the level of corporate governance in the Company.

On agenda QUESTION No.10: “Approval of the new edition of the Regulations concerning conducting the General Meeting of Shareholders of the Company.”

Recommendation:

The Board of Directors recommends approval of the Regulations on conducting the General Meeting of Shareholders of OJSC LSR Group in the new edition.

Position of the Board of Directors:

Approval of the Regulations on conducting the General Meeting of Shareholders of OJSC LSR Group in the new edition is due to the need to bring the Regulations standards into compliance with the planned amendments to the Listing Regulations CJSC FB MMBV and the Code of Corporate Governance (recommended by the Central Bank on 10/04/2014), as well as the need to improve the level of corporate governance in the Company.

On agenda QUESTION No. 11: “Making decisions concerning approval of transactions in cases envisioned by Article 83 of the Federal Law “On Joint-Stock Companies”.

1. Recommendation regarding transactions with OJSC Sberbank of Russia:

The Board of Directors believes it expedient to discuss at the Annual General Meeting of Shareholders the approval of transactions in which it is interested, namely: entry into additional agreements with OJSC Sberbank of Russia to the guarantee agreement and pledge agreement.

Position of the Board of Directors:

In order to minimise the interest expenses of the Borrower (enterprises of LSR Group: LLC LSR, Stenovye-SZ and CJSC Promyshlenny lizing), the terms and conditions of post-import financing provide for synchronous liquidation schedules by the Borrowers of the primary debt to the Bank with schedules of transfer of coverage by Letters of Credit to Foreign Banks.

The schedule for transfer of funds to a Foreign Bank from the cover account depends on the date of the last payment to the Supplier under the Letter of Credit. When this date becomes known, the relevant schedules shall be synchronised. For this purpose, additional agreements are drafted to the Loan Agreements, as well as their support documentation.

According to clause 3, art. 49 of the Federal Law “On Joint Stock Companies” and clause 13.7 of the Company Charter, a decision on the issue of approving transactions in which it is interested is made by the Company General Meeting of Shareholders at the suggestion of the Company Board of Directors.

The interested party in the transaction is:

1. STREETLINK LIMITED – shareholder in OJSC LSR Group with over 20% voting shares in the company. Substantiation of non-arm’s length status: Affiliates of STREETLINK LIMITED, a shareholder of the Company, will be parties/beneficiaries to the transactions.

2. The recommendation regarding transactions which may be carried out in the future during fulfilment by the Company of its normal business activity:

The Board of Directors believes it expedient to review at the Annual General Meeting of Shareholders the approval of transactions in which it is interested and which may be carried out in the future during fulfilment by OJSC LSR Group of its normal business activity.

Position of the Board of Directors:

According to paragraph 2, clause 6, art. 83 of the Federal Law “On Joint Stock Companies, the General Meeting of Shareholders of OJSC LSR Group is entitled to make a decision on approving transactions in which it is interested and which may be effected in the future in the usual course of business of the Company. Such decisions will become valid before the next Annual General Meeting of Shareholders of the Company.

As per paragraph 2, clause 6, art. 83 of the Federal Law “On Joint Stock Companies” it was proposed to discuss at the Company Annual General Meeting of Shareholders the approval of transactions to be concluded between the Company and its subsidiaries, dependent companies, as well as companies in which the Company has an indirect participatory share in the equity over 50% through subsidiaries.

The maximum sum of transactions to receive and offer loans, guarantees and/or mortgages to subsidiary and dependent companies of OJSC LSR Group as collateral for obligations of subsidiary and dependent companies of OJSC LSR Group to creditors corresponds to the Company’s Budget for 2015.

These transactions are presented for review at the Company Annual General Meeting of Shareholders to optimise the performance of the Company Board of Directors and the current production and business activity of the Company.

According to clause 3, art.49 of the Federal Law “On Joint Stock Companies” and clause 13.7 of the Company Charter, the decision on the issue of approving transactions in which it is interested is made by the Company General Meeting of Shareholders at the suggestion of the Company Board of Directors.

Interested parties in the transactions are:

1. STREETLINK LIMITED – shareholder of OJSC LSR Group with over 20% voting shares in the company. Substantiation of non-arm’s length status: Affiliates of STREETLINK LIMITED, a shareholder of the Company, will be parties/beneficiaries to the transactions.

2. O. M. Sheykina, a member of the Board of Directors of OJSC LSR Group. Substantiation of non-arm’s length status: O. M. Sheykina is also the CEO of OJSC ITO ARKHROYEKT (enterprise of LSR Group) which will be a party/beneficiary in the transactions.

3. I. L. Romanov, a member of the Board of OJSC LSR Group. Substantiation of non-arm’s length status: I. L. Romanov is also the director of LLC Promobyekt (enterprise of LSR Group) which will be a party/beneficiary in the transactions.

4. CJSC SPA Rekonstruktsiya, a shareholder of OJSC LSR Group, which together with STREETLINK LIMITED has over 20% voting shares in the company. Substantiation of non-arm’s length status: CJSC SPA Rekonstruktsiya will be a party/beneficiary in the transactions.

5. LLC LSR, a shareholder in OJSC LSR Group, which together with STREETLINK LIMITED has over 20% voting shares in the company. Substantiation of non-arm's length status: LLC LSR will be a party/beneficiary in the transactions.