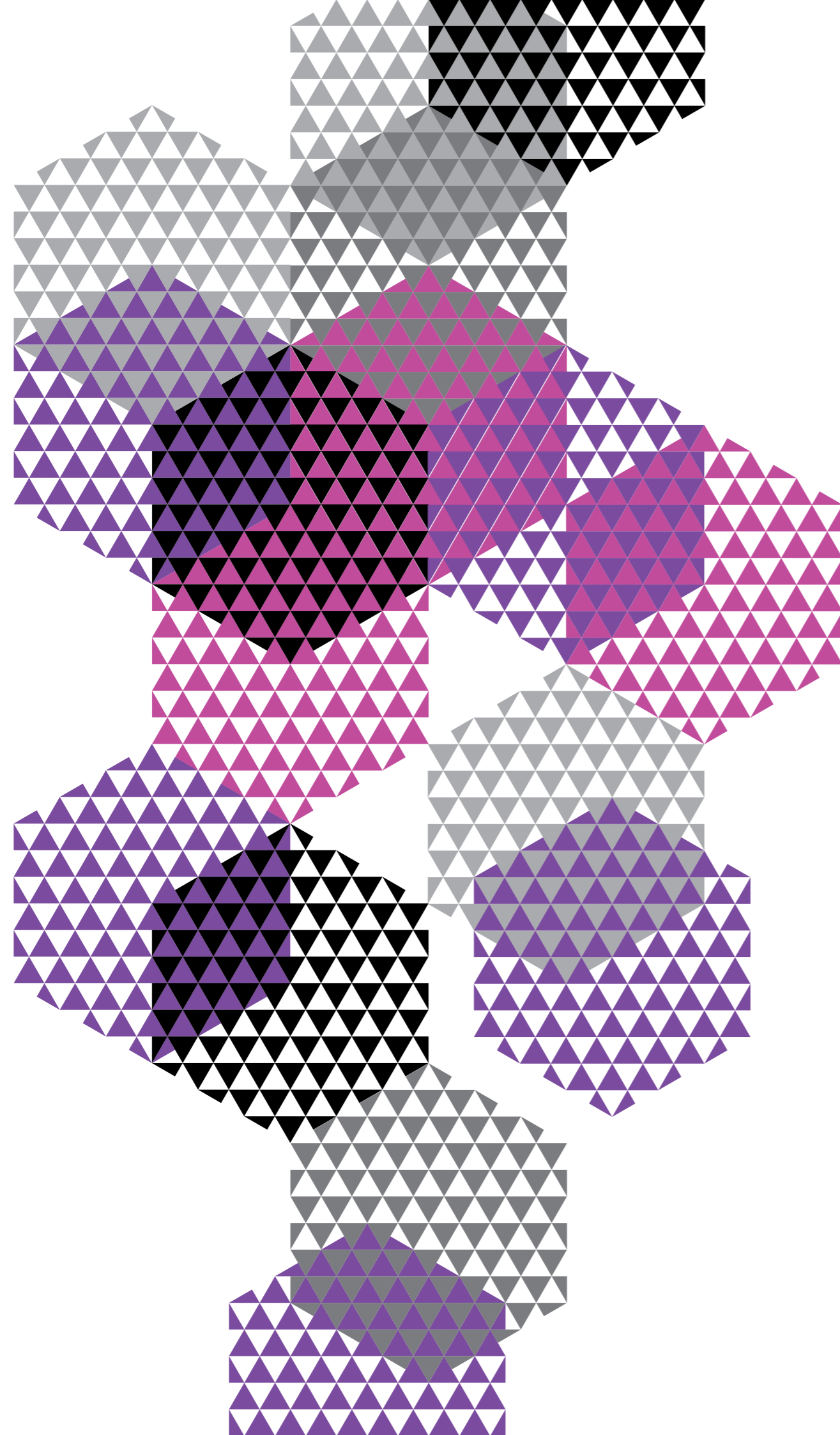


The logo consists of three white squares containing the letters 'L', 'S', and 'R' in a bold, sans-serif font, followed by a vertical line and the text '25 YEARS' in a smaller, bold, sans-serif font.

LSR | **25**
YEARS

SUSTAINABILITY REPORT 2018



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Key figures and performance for 2018

Financial Performance

<p>REVENUE OF</p> <p>RUB 146.4</p> <p>BILLION</p> <p>UP 5.7% YOY</p>	<p>NET PROFIT OF</p> <p>RUB 16.2</p> <p>BILLION</p> <p>UP 2.3% YOY</p>	<p>ADJUSTED EBITDA OF</p> <p>RUB 36.4</p> <p>BILLION</p> <p>24,9% EBITDA MARGIN</p>
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Operational Performance

<p>SALES CONTRACTS</p> <p>1,001,800</p> <p>SQUARE METRES</p>	<p>VALUE OF CONTRACTS</p> <p>RUB 92.7</p> <p>BILLION</p>
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Occupational health and safety



Employees

<p>AVERAGE NUMBER OF GROUP EMPLOYEES</p> <p>11,677</p>	<p>NUMBER OF EMPLOYEES WHO COMPLETED TRAINING</p> <p>3,611</p>	<p>AVERAGE SALARY</p> <p>RUB 57,455</p>
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Ethics and countering corruption

NO CONFIRMED CASES OF CORRUPTION

Developing the regions of presence

AMOUNT INVESTED IN SOCIAL AND CHARITABLE PROJECTS AND THE CONSTRUCTION OF SOCIAL INFRASTRUCTURE **RUB 670 MILLION**

ORPHANED CHILDREN PLACED WITH FAMILIES THROUGH THE GROUP'S COLLABORATION WITH THE CHILDREN ARE WAITING CHARITABLE FOUNDATION **>330**

Protecting the environment

<p>NO ACCIDENTS WITH ENVIRONMENTAL IMPACT</p>	<p>REDUCTION IN ELECTRICITY CONSUMPTION 24%</p>	<p>REDUCTION IN PETROL CONSUMPTION 23%</p>
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Statement from the Chairman of the Board of Directors



Andrey MOLCHANOV,
Chairman of the Board
of Directors, PJSC LSR Group

Dear shareholders, colleagues, and partners,

It is my pleasure to present PJSC LSR Group's Sustainability Report for the year 2018, which has been prepared in accordance with the Global Reporting Initiative (GRI) Standards. Since becoming the first Russian company in the construction sector to publish a sustainability report last year, we continue to report non-financial information and are introducing relevant global standards to the Russian construction sector.

2018 was a special year for LSR Group, as we celebrated the 25th anniversary of our founding with impressive financial and operating performance. We delivered record property sales, through the sale of more than one million square metres for a total value of RUB 93 billion, which helped us grow revenues by 5.7 percent year-on-year, to RUB 146.4 billion. The cultivation of our property development activities and the strengthening of our presence in key regions: Moscow and the Moscow region, St. Petersburg and the Leningrad region, Yekaterinburg,

Our positive financial and operating performance has enabled us to devote ourselves to the ongoing implementation of sustainable development principles, thereby creating additional value for all of our stakeholders. Addressing the need to face changing conditions head-on both at a global and national level remains a key area of focus, particularly as we seek to find new ways to improve efficiency and social responsibility while demonstrating leadership in corporate governance and transparency.

LSR Group's senior directors are devoting special attention to the introduction of sustainable development principles into Group strategy, culture, and activities as the business looks to the future. Ensuring appropriate and safe working conditions, improving the social environment and quality of life in key regions where the Group operates, and minimizing negative impact on the environment are just as important to us as achieving operational and financial success. We are pleased to note the high level of engagement shown by the members of LSR Group's Board of Directors and Executive Committee in addressing these issues, together with the creation of a separate subdivision responsible for sustainable development. In 2018, LSR Group took a major step by joining the United Nations Global Compact. As a Global Compact participant, LSR Group undertakes to integrate UN principles concerning human rights, labour, the environment, and anti-corruption into its strategy and culture, and to publish information on the outcomes of its sustainable development activities on an annual basis.

LSR Group's sustainable development activities are focused on four key areas, taking the interests and expectations of our stakeholders into account:

1. Ensuring decent and safe working conditions (occupational health and industrial safety, human resources)
2. Ethics and countering corruption
3. Facilitating the development of regions where the Group operates
4. Protecting the environment.

The provision of safe and appropriate working conditions

Occupational health and safety

The key priority of our sustainable development activities is to ensure safe working conditions and prevent situations which threaten the lives and health of our employees. As part of our efforts to improve approaches to managing these issues in 2018, we adopted an Occupational Health and Industrial and Fire Safety Policy.

Last year, we succeeded in significantly reducing our accident rate thanks to our Three-Step Compliance Monitoring System for occupational health and safety, safety equipment, and fire safety regulations. There were ten accidents at LSR Group companies in 2018, which represents a 71 percent decrease over the preceding year. None of these accidents were fatal. The lost time injury frequency rate (LTIFR) fell by 59 percent to 0.54. An investigation was conducted following each accident to determine its causes, and appropriate corrective and preventive measures were implemented. We also devote particular attention to measures for preventing and reducing levels of general and work-related ill health, and to other measures to safeguard the health of our employees.

Human resources

In 2018, we continued to focus efforts on providing employees with a pleasant working environment. A key organizational change was the centralization of Group companies HR functions to the Managing Company level. This project was carried out with the objective of improving the performance of HR functions and to increase the quality, accuracy, and speed of information provided to the Group's management concerning HR activities and performance results.

A further achievement in 2018 was the development of a long-term motivation programme for 2019–2023, which envisages the utilization of LSR Group shares to reward the members of the Board and key Group employees. The programme aims to foster the ongoing improvement of the Group's incentive system and to more closely align the interests of the Group's shareholders and management team.

We continue to dedicate significant attention on training, developing, motivating, and providing social support to our employees. LSR's Employee Assessment and Development Centre is gaining momentum. A total of 3,600 employees were undergoing training at a variety of training organizations in 2018. A total of RUB 196 million was invested in social programmes for employees, including financial assistance programmes for employees and their families, staff training, the Growing with LSR children's Programme, medical services, and other measures.

The safeguarding of ethics and anti-corruption practices

Fostering a culture of zero tolerance for corruption among Group employees, subcontractors, and other relevant parties also remains a key priority. We are also committed to improving our approaches to the management of compliance with human rights.

We implemented a range of measures in 2018 to develop transparent and ethical business conduct principles, together with measures for preventing corruption and other offences. These measures included the launch of our own electronic trading platform aimed at improving the transparency and efficiency of our procurement processes and cultivating fair competition. The platform was highly commended by experts in the field with LSR Group gaining recognition through the Leader in Competitive Procurement Award, which is the most significant award available to Russian buyer companies.

The Group continues to operate and enhance various mechanisms for protecting the rights and interests of its employees, including the Trust hotline that enables them to submit messages and complaints on a confidential basis.

The development of regions of presence

LSR Group makes a significant contribution to the development of the regions in which it has operations through job creation, investment in infrastructure, and tax contributions. The Group is an active participant in charitable and social projects, the revitalization and preservation of Russia's cultural heritage, landscaping, and the construction and renovation of important public facilities. We contributed a total of RUB 670 million to social and charitable projects and the construction of public infrastructure in 2018, a 64 percent increase on our contribution in 2017.

LSR Group's priorities for its charitable activities continue to be caring for children, supporting socially vulnerable citizens, and revitalizing and preserving Russia's cultural heritage. In 2018, we continued to collaborate actively with charitable foundations and associations, and also launched a range of novel initiatives. In collaboration with the Children Are Waiting charitable foundation, in 2018 we opened a Family Orientation Centre, whose main goal is – to provide integrated support to families who adopt. More than 330 orphaned children found a loving family through the Group's collaboration with the Children Are Waiting charitable foundation in 2018. LSR Group also began a new collaboration in 2018 as a general partner of the Russian State Specialized Academy of the Arts (RGSAA), the world's only educational institution giving people with disabilities the

opportunity to obtain a fully-fledged higher education in the arts. In the same year, LSR Group was awarded the Investor of the Year badge of honour for the Best Social Project by the Government of St. Petersburg following the creation and successful opening of a unique assisted living complex for people with physical and intellectual disabilities.

The protection of the environment

The Group is constantly refining its approaches to the management of environmental protection issues and investing resources in conservation and offsetting projects to prevent and reduce its environmental impact. No major accidents with environmental impact were recorded during the reporting period.

The Group pays considerable attention to monitoring its energy consumption and improving energy efficiency, with the objectives of achieving optimal resource use and managing climate risk. In part through the sale of Group enterprises, in 2018 LSR Group reduced its electricity consumption by 24 percent compared with the previous year, to 181 kWh. Petrol use also fell by more than 23 percent in comparison with 2017.

A key element of sustainable development for the Group is green building and sustainable site development, which help to minimize climate risk, preserve natural resources, support health, and improve quality of life and social living standards in new homes. Examples of sites equipped with energy-saving and energy-efficient technologies include the Neva Haus residential complex, Kaleidoscope in St. Petersburg, and ZILART in Moscow.

I would like to thank all of LSR Group's employees and partners for their vital contribution to our success. We intend to continue strengthening our leading positions on the Russian real estate and building materials sector, including with respect to responsible business conduct and considering the expectations of our stakeholders. We also plan to carry on working hard to improve safety and working conditions; attract, train, and retain qualified staff; reduce our environmental impact; and provide support to socially vulnerable people.

About the Report

Developing non-financial reporting

This LSR Group* Sustainability Report is the second non-financial report prepared in the Group's history. The report covers key results of the Group's economic, social and environmental activities during the period between 1 January and 31 December 2018.

The annual preparation and publication of non-financial reports is an important part of the Group's efforts to improve its social responsibility practice and ensure the provision of transparent information to all stakeholders. The 2017 Sustainability Report was published in October 2018. Electronic versions of both reports can be found on our corporate website: <http://www.lsrgroup.ru/en/investor-relations/sustainability-reports>.



This Report has been prepared in accordance with the GRI Sustainability Reporting Standards: Core option.

The following guidances were also taken into account during preparation of the Report:

- The GRI Construction and Real Estate Sector Supplement;
- The ISO 26000:2010 Guidance on Social Responsibility and the identical Russian GOST R ISO 26000-2012 guidance;
- The European Public Real Estate Association (EPRA) Sustainability Best Practices Recommendations (sBPR) Guidelines.

* Public Joint Stock Company LSR Group (referred to elsewhere as 'PJSC LSR Group' or 'the Company') and its subsidiaries (referred to elsewhere as 'Group companies' or 'Group enterprises'), which will jointly be referred to elsewhere as 'LSR Group' or 'the Group'.

** An ESG analyst researches environmental, social and governance risks, opportunities and capabilities

In light of the Group's commitment to the UN Global Compact, this Report also includes information on the compliance of our activities with the UN principles covering human rights, labour, the environment, and anti-corruption. Furthermore, the Report reflects the contribution made by LSR Group to achieving the Sustainable Development Goals adopted by the UN in 2015 and set out in the document Transforming Our World: The 2030 Agenda for Sustainable Development.

Material topics and scope of reporting

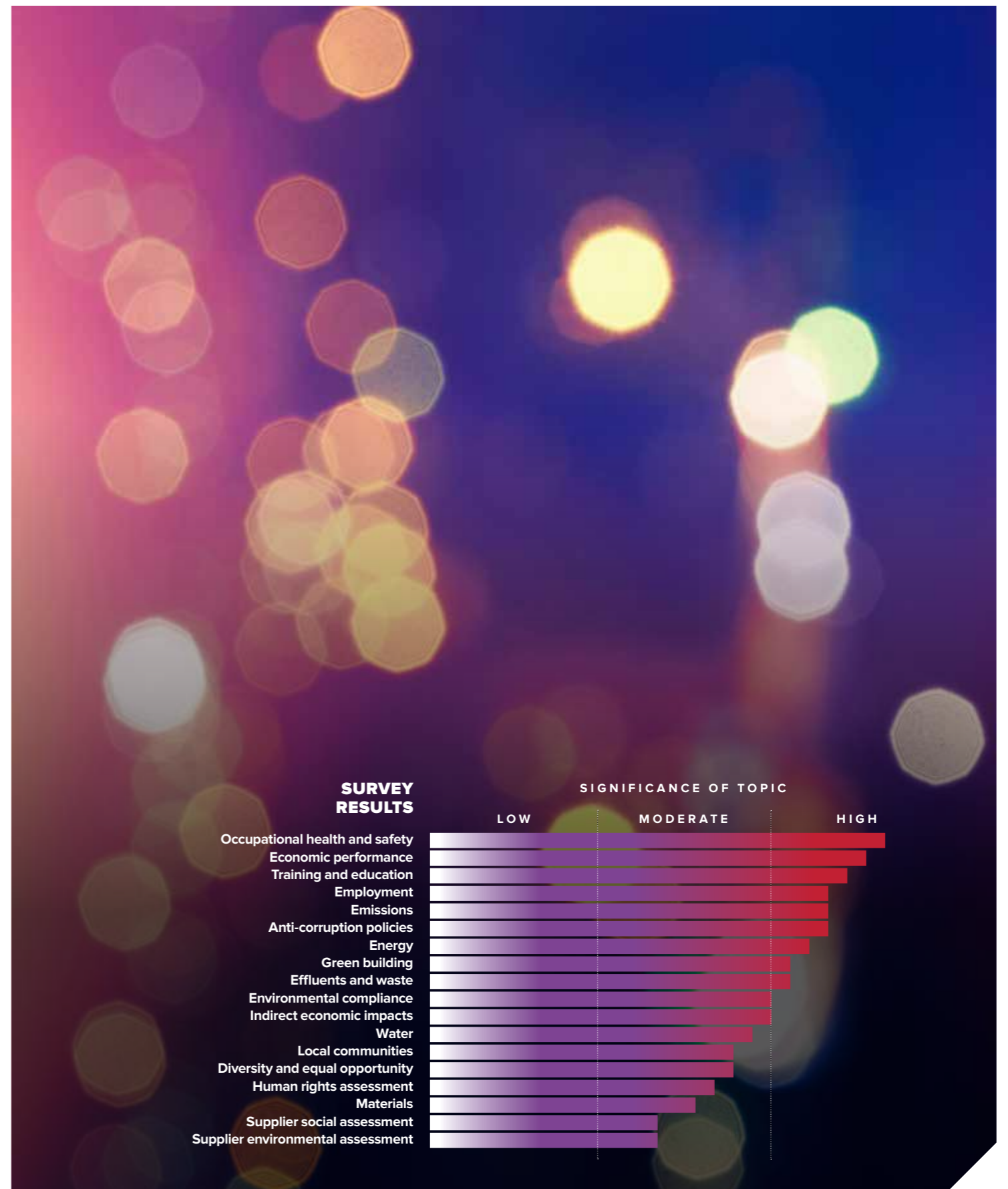
In order to determine the content of the Report, a materiality assessment was carried out. The most significant economic, environmental and social impacts of the Group, in addition to those aspects which substantively influence the assessments and

decisions made by its stakeholders, were identified following the assessment. The procedure for determining material disclosure is based on the recommendations of the GRI Standards and, in 2018, it consisted of three key stages as reflected in the table below.

In order to assess the significance of our impact in these areas, during the reporting period, we surveyed our internal and external stakeholders for the first time, including investors and directors of LSR Group functional subdivisions participating in the preparation of the Report. Participants in these surveys were asked to give their opinion on the most significant aspects of the Group's activities in priority order. LSR Group plans to continue expanding the role of stakeholders in assessing the importance of sustainable development issues for the Group in the future.

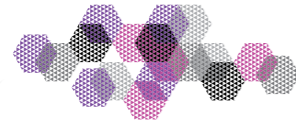
Key stages for determining material aspects

1	Analysis of internal and external sources	<ul style="list-style-type: none"> ■ Analysis of the internal reporting on the Group's activity ■ Analysis of publicly available information on the Group ■ Comparative analysis of material topics disclosed by foreign companies in the construction and real estate sector
2	Analysis of stakeholder opinion	<ul style="list-style-type: none"> ■ Surveys of directors of LSR Group's centralised functional subdivisions participating in the preparation of the Report ■ Interviews with representatives from LSR Group's centralised functional subdivisions and Group companies ■ Analysis of requests received from investors and ESG analysts** ■ Investor surveys
3	Development of a list of material topics	<ul style="list-style-type: none"> ■ Development of a preliminary list of material topics based on the analysis ■ Approval of the preliminary list of material topics by the relevant Group representatives



On the basis of the data obtained during the materiality assessment, the list of topics discussed in last year's report was updated and supplemented with those aspects

that are most important for our stakeholders. The final list included 16 topics that were identified as being significant for both our internal and external stakeholders.



“
The process
of preparing
the Report
is governed
by the directive
”On the Preparation
of the LSR Group
Sustainability
Report 2018”

LIST OF MATERIAL TOPICS FOR THE REPORT

Category	Material topics	Scope of material topics		
		Building materials	Construction and development	Other (incl. in IFRS)
Economic	GRI 201. Economic performance	✗	✗	✗
	GRI 203. Indirect economic impacts	✗	✗	✗
	GRI 205. Anti-corruption policies	✗	✗	✗
Environmental	GRI 301. Materials	✗		
	GRI 302. Energy	✗	✗	✗
	GRI 303. Water	✗		
	GRI 305. Emissions	✗		
	GRI 306. Effluents and waste	✗		
	GRI 307. Environmental compliance	✗		
Social	GRI 401. Employment	✗	✗	✗
	GRI 403. Occupational health and safety	✗	✗	✗
	GRI 404. Training and education	✗	✗	✗
	GRI 405. Diversity and equal opportunity	✗	✗	✗
	GRI 412. Human rights assessment	✗	✗	✗
	GRI 413. Local communities	✗	✗	✗
Other	Green building	✗	✗	✗

The financial information and the majority of the non-financial information presented in the Report reflect LSR Group's activity in accordance with the IFRS requirements for consolidated financial statements in 2018*. Quantitative environmental protection data refers to the Building Materials business segment (with the exception of the information on energy consumption, which refers to the Group as a whole). When disclosing indicators with borders that differ from the above, information on which companies are included in the coverage is additionally indicated in the Report.

The scope for the reporting of data relating to environmental protection was significantly expanded in the reporting year. The information reported in the

2017 Report related to a single business unit from the Building Materials segment, while the 2018 Report covers the whole segment and the information regarding the governance aspect relates to the Group as a whole. These changes are associated with the gradual implementation of processes for gathering and consolidating non-financial information across Group companies. Due to the nature of its activities, our initial focus was on the Building Materials segment as companies in this segment have the most significant environmental impact.

Data preparation methodology

The non-financial information disclosed in the Report was gathered using internal

management reports and official forms for state statistical reporting, as well as special information gathering forms created on the basis of the requirements of GRI Standards and the results of the materiality assessment. The process of preparing the Report is governed by the directive 'On the Preparation of the LSR Group Sustainability Report 2018', which includes the approved timetable for measures to be taken, together with indications of the individuals responsible for carrying them out and timeframes for their implementation. The following measures were carried out in 2018 in accordance with this directive: the materiality assessment, gathering of information in the form of interviews and completion of information requests, development and approval of the Report's content, translation, preparation

of the layout of the Report and publication.

Following the Group's initiative to improve its approach for the preparation of non-financial reporting, the methodology for calculating various indicators was refined during the reporting year, and data for the previous reporting periods was recalculated accordingly. Information on changes related to the methodology and recalculations is provided in the commentaries on the relevant indicators.

* A list of subsidiary companies is provided in the IFRS consolidated financial statements.



About LSR Group

LSR Group today

The public joint-stock company LSR Group is the parent organisation of the LSR Group of Companies with its headquarters located in St. Petersburg.

LSR Group has operated in the Russian construction and real estate market for over 25 years and is one of the largest real estate companies in Russia.

LSR Group's operations are based on a vertically integrated business model which enables stable long-term growth to meet consumer

demand and maintain the Group's financial stability.

The Group's key areas of activity are real estate development, construction and production of building materials. Today, all of LSR Group's activities are complementary, creating a synergistic effect. Seamless collaboration mechanisms enable the Group companies to provide integrated services while reducing production costs and reacting rapidly to changes in the external environment.

PJSC LSR Group conducted its initial public offering in 2007.

PJSC LSR Group's shares are traded on the Moscow Exchange, while its global depository receipts (GDRs) are listed on the London Stock Exchange.

Geographical reach

LSR Group's key operating regions are:

- St. Petersburg and the Leningrad Region
- Moscow and the Moscow Region
- Yekaterinburg

LSR GROUP REGIONS OF PRESENCE AND BUSINESS ACTIVITIES

Region/city	Area of activity
St. Petersburg and the Leningrad Region	<ul style="list-style-type: none"> ■ Property development and construction of all kinds - from mass housing to elite real estate ■ Extraction and production of non-metallic materials (sand, crushed granite) ■ Production of building materials (bricks, reinforced concrete, ready-mixed concrete and mortars, aerated concrete) and aggregates (sand and granite) ■ Provision of tower crane rental services*
Moscow and the Moscow Region	<ul style="list-style-type: none"> ■ Implementation of construction projects (including the government projects), acting as an investor, developer ■ Production of building materials (bricks) ■ Provision of tower crane rental services
Yekaterinburg	<ul style="list-style-type: none"> ■ Mass market property development and construction ■ Production of reinforced concrete products for industrial housing construction

The structure of LSR Group

Our approach to managing the Group companies is based on the consolidation of these companies into business units according to their area of activity and their product offering.

The Company coordinates operations of the Group's business units, which are split into the following areas of activities:

- LSR. Real Estate
- LSR. Construction
- LSR. Building Materials

Administrative and support functions are carried out by subdivisions of LSR Group, including its Human Resources, Information Technology, Financial, Legal, Economic Security, Investor Relations and Sustainable Development, Information Policy and Corporate Communications and Centralised Procurement Directorates.



Organisational structure of LSR Group



LSR. Real Estate

LSR. Real Estate - North-West
LSR. Real Estate - Moscow
LSR. Real Estate - Ural

Structural subdivisions specialising in development projects in the elite, comfort, and business-class segments, as well as commercial real estate.



LSR. Construction

LSR. Construction - North-West
LSR. Construction - Ural
LSR. Project Management
LSR. Cranes

Structural subdivisions specialising in constructing buildings for the Group's development companies, providing subcontractor construction services and transportation of building materials.

The LSR. Cranes business unit specialising in tower crane rental services and managing the process using tower cranes.

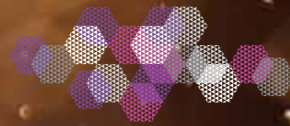


LSR. Building Materials

LSR. Basic Materials
LSR. Ready-mix Concrete
LSR. Wall Materials
LSR. Reinforced Concrete- North-West

Structural subdivisions specialising in building materials production, including bricks, ready-mix and reinforced concrete products, aerated concrete blocks and crushed granite, as well as extraction of sea and quarry sand.

*Tower crane rental services include cargo-lifting mechanisms services.



Our strategic vision and values

LSR Group's strategic development objective is aimed at strengthening its leading positions across the key regions of its operations, as well as contributing to the overall economic growth of Russia. LSR Group is committed to conducting its high-quality and socially responsible business by implementing the best global practices and standards.

LSR Group pursues its day-to-day activities in accordance with principles set in our strategic vision, objectives and targets:

- Guarantee quality at every stage of construction and assuming responsibility towards our clients and partners
- Invest in modernising existing production capacity and leveraging innovative approaches and technologies to ensure our business is as profitable as possible
- Create an environment that enables our employees to work effectively, while providing them with wide-ranging opportunities for professional and career growth
- Adhere to the principles of openness, transparency and risk minimisation for all of our stakeholders, while improving further our corporate governance conduct
- Maximise the sustainable development of our business to facilitate social and economic uplift in the key regions where the Group operates
- Utilise cutting-edge approaches to implement social and charitable programmes and contributing to public benefit
- Recognise the importance of protecting the environment.

“
LSR Group is committed to conducting its high-quality and socially responsible business by implementing the best global practices and standards.”

Economic efficiency

To create and increase value for its stakeholders in a sustainable manner, LSR Group devotes significant efforts to improving the production and economic efficiency of our activities. We have constructed an efficient, vertically integrated business model, we understand the needs of our clients, we react quickly to external situations, we have an enhanced risk management function and we are constantly reinforcing our competitive advantages – all these help us to achieve our goals.

Considering diverse market changes, including those related to co-investment construction legislation, as well as consumer preferences, we strive to respond rapidly to new developments by implementing appropriate measures. LSR Group successfully reached all targets and achieved strong financial and operational performance in 2018.

The Group saw a significant increase in new contracts, representing a total area of more than one million square metres and a value of RUB 93 billion. This is a reflection of the recent adjustments made to the Group's product offering, which has led to a more competitive proposition. Contract sales were also underpinned by record low mortgage rates in the first half of the year, and consumer expectations for future price increases in light of recent regulatory changes. The building materials segment continues to perform strongly, with an increase in sales of our crushed granite and sand, as well as higher shipment volumes of our ready-mix concrete. Strong operational performance (in FY2018) translated into a 5.7 percent increase in revenue year-on-year, to RUB 146.4 billion.

Taking into account revenue received in 2018, direct economic value created totalled RUB 149,071 million, of which RUB 134,793 million was distributed among the Group's key stakeholders. The largest share of cash payments was made to Group suppliers and subcontractors for materials, equipment and services procured (as part of operational expenses). Economic value was further distributed in the form of employee wages (RUB 12,058 million) and dividends to shareholders (RUB 7,984 million).

In generating material value for our stakeholders, we promote both our own development and the economic development of the regions in which we operate. We intend to continue strengthening

our competitive advantages, pursuing our chosen strategy, and cultivating our relationships with stakeholders in order to ensure the Group's stable and balanced development.

ECONOMIC VALUE CREATED AND DISTRIBUTED BY LSR GROUP

Indicator	2018, RUB million		
Direct economic value created	149,071	Stakeholders – recipients of economic value	
Revenue	146,376		
Income from financial investments	2,580		
Income from the sale of tangible assets	115		
Distributed economic value	134,793		
Operational expenses	94,407		→ Suppliers and subcontractors
Wages paid to employees	12,058		→ Employees
incl. labor costs without insurance premiums	9,673		
Other payments to and benefits for employees	15		
Payments to capital providers	13,083		→ Shareholders and investors
incl. dividends paid	7,984		
incl. interest paid to creditors	5,099		
Payments to the state	4,887	→ Government bodies	
Public investment	670	→ Local communities	
Undistributed economic value	14,278		

Sustainable development strategy and management

Our vision

We are committed to building high-quality and comfortable housing which contributes to both improving people's quality of life and creating a safe and pleasant social and cultural environment.

Our approach

We are guided by principles of openness and transparency, while considering the interests of all of our stakeholders.

“

Businesses should develop not only to make a profit, but also for the common good of society. It is important for us to create new value not only in the form of dividends for our shareholders, but also in the form of benefits for our country and the people who live in it.

Approach to sustainability management

Our vision

LSR Group's management devotes special attention to the introduction of sustainable development principles into the Group's strategy, culture and activities. We are committed to building high-quality and comfortable housing which contributes to both improving people's quality of life and creating a safe and pleasant social and cultural environment.

Our approach

Social and environmental responsibility is an important element of our approach to conducting business. We are guided by principles of openness and transparency, while considering the interests of all of our stakeholders. We actively manage economic, environmental and social risks and opportunities, and subject our corporate governance methods to an ongoing process of refinement. Investing in human capital, ensuring appropriate and safe working conditions, improving the social environment and quality of life in key regions where the Group

operates, and minimising our negative impact on the environment are just as important to us as achieving operational and financial success.

This is the philosophy which guides our activities: businesses should develop not only to make a profit, but also for the common good of society. It is important for us to create new value not only in the form of dividends for our shareholders, but also in the form of benefits for our country and the people who live in it.

The Group's approach to managing the economic, environmental and social aspects of its activities is based

on global best practice for sustainable development. At all levels, the Group is committed to considering the needs and expectations of its stakeholders and care for local communities, our employees and the environment.

LSR Group supports the Sustainable Development Goals (SDGs) adopted by the UN General Assembly in 2015, aimed at tackling significant economic, social and environmental issues. The Group contributes to the attainment of the SDGs through its responsible business conduct, the reduction of negative environmental impact and the implementation

of charitable and social support projects.

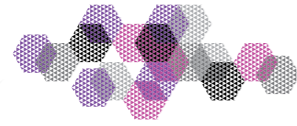
In 2018, LSR Group took the important decision to commit to the United Nations Global Compact. As a Global Compact participant, LSR Group undertakes to integrate UN principles concerning human rights, labour, environment and anti-corruption into its strategy and culture, and to publish information on the outcomes of its sustainable development activities on an annual basis. Official confirmation of LSR Group's participation in the Global Compact was received in January 2019.

Key areas of LSR Group's sustainable development activities

LSR Group's sustainable development activities are focused on four key areas:

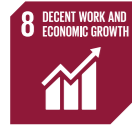
1. Ensuring decent and safe working conditions (occupational health and industrial safety, human resources)
2. Ethics and countering corruption
3. Facilitating the development of regions where the Group operates
4. Protecting the environment

Every one of these areas is important to consider in order for the Group to have a positive impact on society, environment and the key regions in which it operates.



Key areas of LSR Group's sustainable development activities

Ensuring decent and safe working conditions (occupational health and safety, human resources)



UN Global Compact Principles

- PRINCIPLE 1.** Businesses should support and respect the protection of internationally proclaimed human rights.
- PRINCIPLE 2.** Businesses should make sure that they are not complicit in human rights abuses.
- PRINCIPLE 3.** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- PRINCIPLE 4.** Businesses should uphold the elimination of all forms of forced and compulsory labour.
- PRINCIPLE 5.** Businesses should uphold the effective abolition of child labour.
- PRINCIPLE 6.** Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Group goals and objectives

- Creating safe and appropriate working conditions for employees
- Preventing situations that endanger lives or health of employees.
- Preventing and reducing general and work-related employee ill health.
- Carrying out occupational safety risk assessments, as well as health and safety audits and inspections.
- Establishing requirements for contractor organisations concerning compliance with industrial safety standards when working at the Group's facilities.
- Guaranteeing a stable income and a timely payment of competitive salaries and wages.
- Training employees and providing them with opportunities for professional growth and career development.
- Providing all categories of employees with social benefits and social security.
- Protecting human rights, including preventing discrimination and ensuring equal opportunities and freedom of speech.

Ethics and countering corruption



UN Global Compact Principles

PRINCIPLE 10. Businesses should work against corruption in all its forms, including extortion and bribery.

Group goals and objectives

- Ensuring that the activities of the Group and its contractors comply with the principles of honest, transparent and ethical business conduct.
- Countering corruption and corporate fraud, and identifying and preventing conflicts of interest.
- Ensuring that stakeholders have access to up-to-date and reliable information concerning the Group's activities and performance.
- Ensuring that the procedure for selecting contractors is transparent and objective.
- Monitoring and assessing the activities of contractors.
- Operating the Trust hotline service.

Key outcomes in 2018

OCCUPATIONAL HEALTH AND SAFETY

- Adoption of the Occupational Health and Industrial and Fire Safety Policy.
- Significant reduction in the number of accidents: 10 accidents, down 71 percent vs 2017.
- No fatal accidents.
- LTIFR down 59 percent to 0.54.
- Reinforced monitoring of subcontractor compliance with the safety requirements.

HUMAN RESOURCES

- Centralisation of the HR functions of Group enterprises.
- A 17 percent increase in average employee wages compared with 2017 (to RUB 57,455).
- RUB 196 million spent on social programmes for employees.
- More than 3,600 employees completed training and professional development programmes.
- Development of a long-term LSR Group incentive programme for 2019–2023, which envisages the utilisation of shares to motivate members of the Board and key Group employees.
- No confirmed cases of human rights violations.

SIGNIFICANT REDUCTION IN THE NUMBER OF ACCIDENTS

10

DOWN 71% YOY



More than 3,600 employees completed training and professional development programmes

Key outcomes in 2018

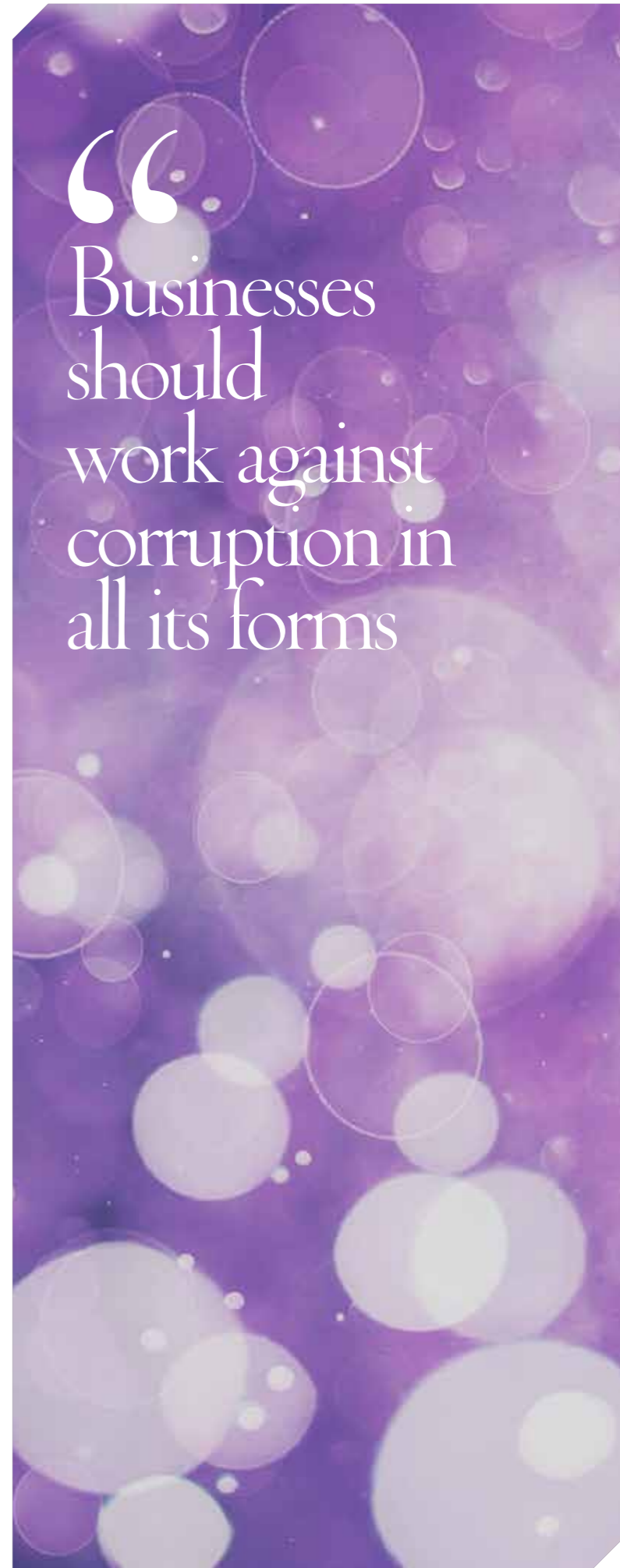
- No confirmed cases of corruption.
- Inclusion of anti-corruption clauses in the templates of all standard agreements used by the Group in its relations with contractors.
- Anti-corruption policies and procedures have been communicated to a total of 4,135 subcontractors and business partners, up 18 percent year-on-year.
- Anti-corruption policies and procedures have been communicated to a total of 10,796 employees.
- Automation of procurement procedures and launch of our own electronic trading platform.
- Introduction of a new Regulation on Procurement.
- Optimisation of the Trust hotline service.

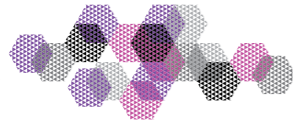
ANTI-CORRUPTION POLICIES AND PROCEDURES HAVE BEEN COMMUNICATED TO A TOTAL OF

10,796

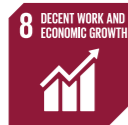
ANTI-CORRUPTION POLICIES AND PROCEDURES HAVE BEEN COMMUNICATED TO A TOTAL OF

4,135





Facilitating the development of regions where the Company operates

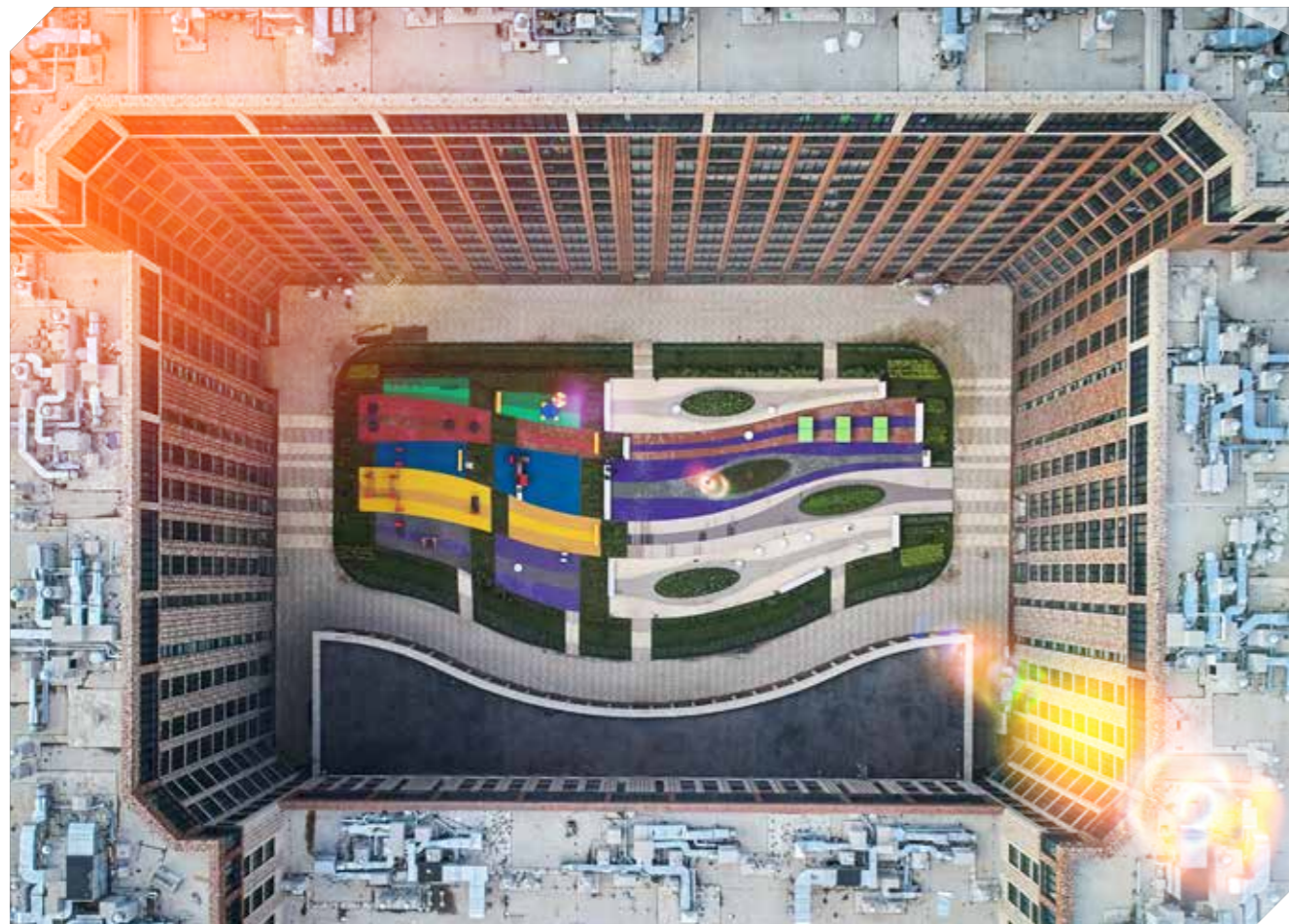


Group goals and objectives

- Improving quality of life by building comfortable and affordable housing.
- Helping to increase employment in regions where the Company operates.
- Caring for children, orphans and people with disabilities.
- Increasing regional budget revenues.
- Promoting the development of other economic sectors through the multiplier effect.
- Participating in the landscaping, construction and reconstruction of important social facilities.
- Supporting vulnerable social groups.
- Supporting cultural projects and renovating architectural monuments.

Key outcomes in 2018

- RUB 670 million invested in the implementation of social and charitable projects and the construction of social infrastructure, a 64 percent year-on-year increase.
- New initiatives in collaboration with charitable foundations and associations: opening of the Family Adaptation Centre as part of our collaboration with the Children Are Waiting charitable foundation; opening of the House of Hope temporary accommodation facility.
- More than 330 orphaned children placed with families in 2018 as part of our partnership with the Children Are Waiting charitable foundation.
- Launch of our partnership with the Russian State Specialised Academy of the Arts (RGSAA), the world's only educational institution giving people with disabilities the opportunity to obtain a fully-fledged higher arts education.



Protecting the environment



UN Global Compact Principles

- **PRINCIPLE 7.** Businesses should support a precautionary approach to environmental challenges.
- **PRINCIPLE 8.** Businesses should undertake initiatives to promote greater environmental responsibility.
- **PRINCIPLE 9.** Businesses should encourage the development and diffusion of environmentally friendly technologies.

Group goals and objectives

- Implementing contemporary environmental management approaches and methods within the Group.
- Making rational use of natural resources.
- Preventing environmental pollution and restoring ecosystems.
- Mitigating negative environmental impact by implementing cutting-edge technologies and upgrading equipment.

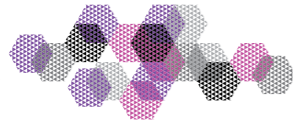
Key outcomes in 2018

- 24 percent reduction in electricity consumption to 181 million kWh compared to 2017.
- No accidents occurred impacting the environment.
- More than 23 percent drop in petrol consumption in comparison with 2017.
- Compliance of constructed real estate and produced products with strict safety, quality, and environmental efficiency standards; eco-certification of a number of sites.

REDUCTION IN ELECTRICITY CONSUMPTION

24%
compared to 2017
TO 181 MILLION KWH

“
Businesses should encourage the development and diffusion of environmentally friendly technologies.”



Key documents

A number of internal regulatory documents are in place across LSR Group and serve to regulate the Group's sustainable development activities.

Among the key documents are:

- Code of Ethics
- Regulation on Social Responsibility Policy
- Declaration of the Board of Directors on Countering Bribery
- Principles for Countering Corruption
- Regulation on Conflicts of Interest
- Risk Management Policy
- Directive on Occupational Health and Safety, Safety Equipment, and Fire Safety at LSR Group Companies
- Occupational Health, Industrial and Fire Safety Policy
- Regulation on Procurement
- Regulation on Policy for Sales by LSR Group Companies
- Regulation on the Management of Receivables from Clients
- Regulation on Investment Activities
- Personnel Selection and Recruitment Regulations
- Employee Onboarding Regulations
- Regulation on Corporate Awards
- Regulation on Housing Programmes
- Internal Workplace Regulations
- Regulation on Employee Remuneration and Financial Incentives
- Information letter on the social policy budget development

Local regulations are also in place within each of the Group's business units and companies. These local regulations take into account the requirements and recommendations of the corporate documents, but also include provisions based on the individual characteristics and specific features of the activities carried out by the companies.

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A number of internal regulatory documents are in place across LSR Group and serve to regulate the Group's sustainable development activities.

Corporate governance

All LSR Group activity is undertaken in the context of an effective corporate governance system. This system is continuously refined, enabling the Group to achieve its strategic goals and improve its operating and financial efficiency.

The Group's corporate governance system complies with the relevant Russian legislation, the principles and recommendations of the Corporate Governance Code recommended for use by the Bank of Russia, the requirements of the Moscow Exchange for public companies, and international requirements for public companies listed on the London Stock Exchange.

Our corporate governance activities revolve around the following principles:

- The equal treatment of all shareholders;
- The protection of the rights and interests of all shareholders;
- Compliance with legislation in all aspects of business;
- Independence of the Board of Directors with respect to decision-making;
- Transparency of information;
- An effective internal control and audit system; and
- compliance with business ethics.

LSR Group is committed to meeting a high standard of openness and transparency in its activities, in accordance with global best practice. Information concerning the Group's activities can be found in regularly published documents and reports on the

Group's official website www.lsrgroup.ru/en/. These include quarterly reports, reports on financial and operating performance, annual reports, sustainability reports, press releases, statements of material facts, and lists of affiliated entities.

The management of sustainable development issues is an integral part of the Company's existing corporate management system and is carried out at each of its organizational levels.

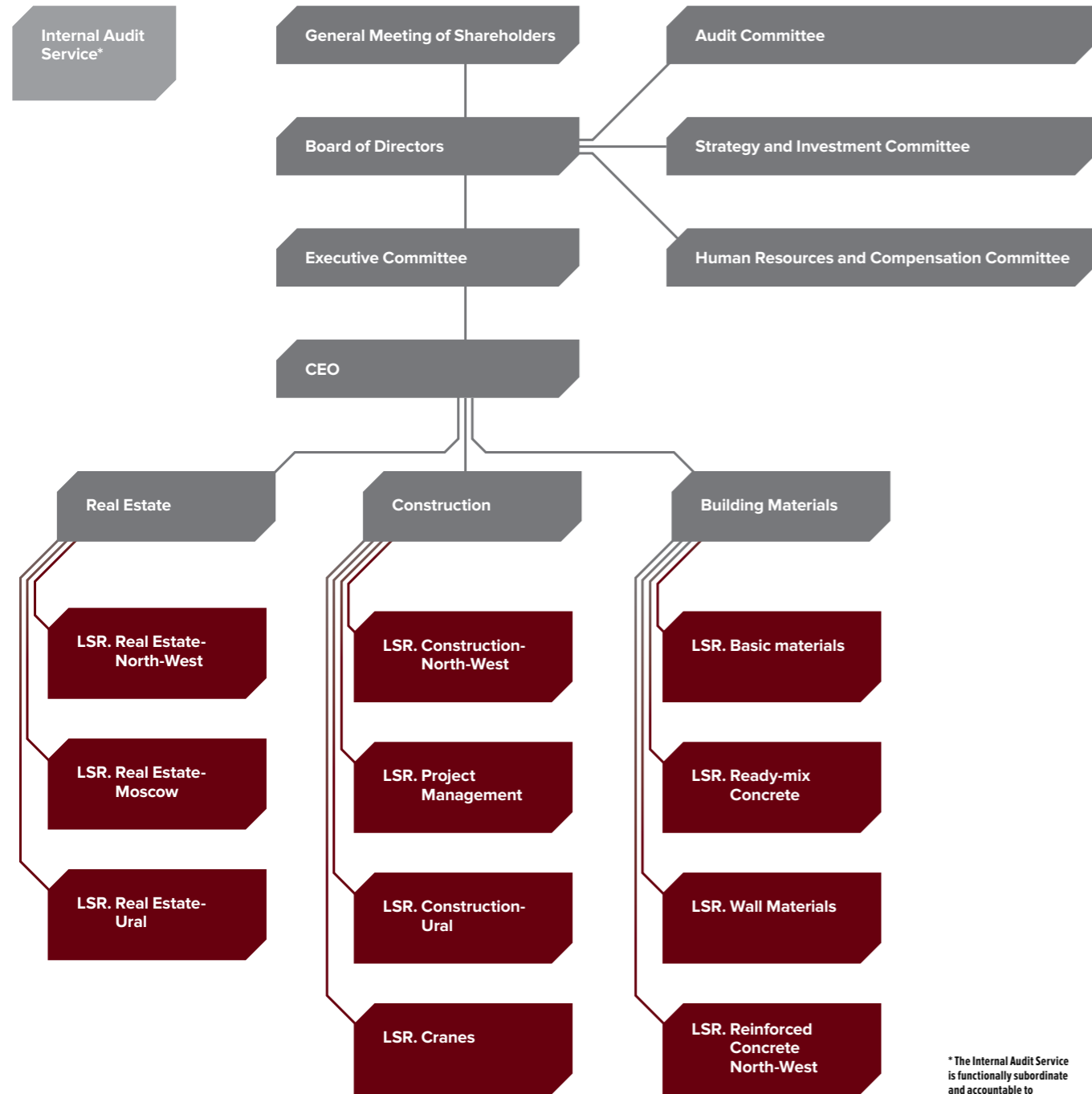
LSR Group's Board of Directors and Board committees, together with the Executive Committee and the Chief Executive Officer, determine management priorities and exercise the overall management of LSR Group, including its sustainable development activities. The setting and implementation of concrete sustainable development objectives and initiatives is the responsibility of the Group's centralized structural subdivisions.

In 2018 the Company also created a separate subdivision responsible for sustainable development, in charge of determining the objectives and measures to be implemented in this area, coordinating and monitoring sustainable development activities, preparing relevant internal documents, and collaborating with stakeholders and other relevant structural subdivisions.

The managers of LSR Group's companies coordinate their activities, and also take on responsibility for various aspects of sustainable development. The functional structural subdivisions of the Group's companies accountable to these managers are directly responsible for implementing the objectives that are set.



ORGANIZATIONAL STRUCTURE OF SUSTAINABLE DEVELOPMENT MANAGEMENT



* The Internal Audit Service is functionally subordinate and accountable to the Board of Directors, and administratively subordinate and accountable to the CEO.

LSR Group pays special attention to having an independent representation on its Board.. We are confident that their involvement will facilitate the improved efficiency and objectivity of the Board of Directors' work, and it will help to protect the rights and interests of our shareholders. 2018 brought some significant changes to our corporate governance system: the number of members serving on the PJSC LSR Group Board of Directors was optimized to seven and the number of independent directors increased to four. The composition of our Board of Directors, in which the majority of members are independent directors, is in line with global best practice in corporate governance.

The makeup of the Board of Directors is determined with reference to an extensive list of factors which make the Board's activity as effective as possible, including qualifications, experience, and business and other qualities. At the same time, we ensure that membership of the Board of Directors and the Executive Committee is unrestricted with respect to age, gender, and other diversity indicators.

During the reporting period, several members of our Board of Directors joined the ranks of the 50 Best Independent Directors and 25 Best Chairs of Boards of Directors in the Director of the Year 2018 awards for their contribution to the development of corporate governance.

Between 1 January 2018 and 29 June 2018, the Board of Directors comprised nine members, including:

- three independent directors
- three nonexecutive directors
- three executive directors

Between 29 June 2018 and 31 December 2018 the Board of Directors comprised seven members, including:

- four independent directors
- two nonexecutive directors
- one executive director

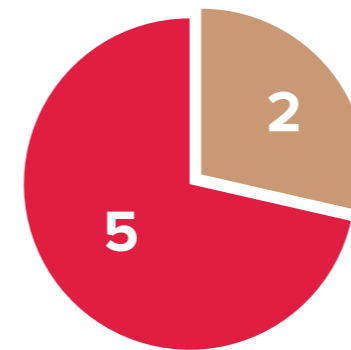
In 2018, sustainable development issues were discussed at nine sessions of the Board of Directors and the Executive Committee, and also at sessions of committees of the Board of Directors. The issues discussed at these sessions included the following: the Incentive Programme for LSR Group Managers, the Long-Term Incentive Programme for LSR Group Managers, the Regulation on Housing Programmes, the HR Report, the Risk Management Policy, the Occupational Health and Industrial and Fire Safety Policy, the Sustainability Report, the Occupational Health and Safety Report, and the approval of candidates for the Best in LSR Gold Pin.

The Board of Directors and Executive Committee intend to continue their active engagement in managing, coordinating, and monitoring a diverse range of sustainable development issues.

COMPOSITION OF THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE BY AGE CATEGORY

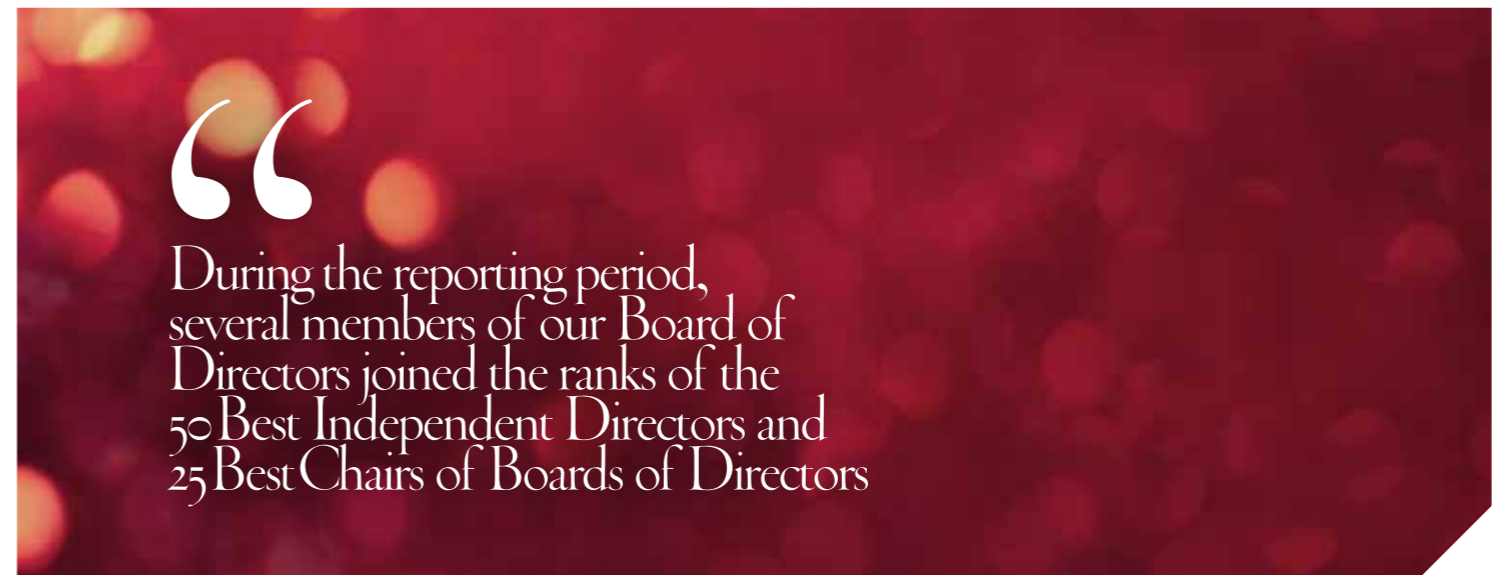
BOARD OF DIRECTORS

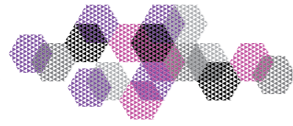
36-45
46-55



EXECUTIVE COMMITTEE

36-45
46-55
> 56





Participation in industry associations and external initiatives

LSR Group takes an active position on, and contributes to supporting, entrepreneurship and the development of the construction sector and regional industry. Sharing professional experience, helping to resolve current issues within the sector, and contributing to regions where operations are located are all important aspects of the Group's activities.

LSR Group is a member of the following associations and initiatives:

- The Russian Union of Builders (national interbranch employers' association)
- The Russian Union of Construction Associations and Organizations
- The Russian Association of Designers and Planners (self-regulating organization)
- The Northwest Concrete Association of Concrete Product Producers

- The Subsoil Association of Producers and Consumers of Natural Construction Materials
- The Leningrad Region Construction Sector Association (self-regulating organization)
- The Russian Interregional Builders' Association (self-regulating organization)
- The Russian Interregional Designers' and Planners' Union (self-regulating organization)
- The Russian Guild of Property Managers and Developers (non-commercial partnership)
- The Urals Builders' Association (self-regulating organization)
- The Sverdlovsk Region Designers' and Planners' Association (self-regulating organization)
- The Russian Interregional Union of Cadastral Engineers (self-regulating organization)

- The Russian Association of Designers and Planners (self-regulating organization)
- The St. Petersburg Association of Builders (self-regulating organization)
- The Russian Association of Surveyors (self-regulating organization)
- The Sverdlovsk Region Construction Industry Union (self-regulating organization)
- The Sverdlovsk Region Construction Industry Union Regional Sectoral Employers' Association
- The Association for the Promotion of Expo 2025 in Yekaterinburg
- The Sverdlovsk Region Union of Design, Scientific, and Surveyors' Organizations

Achievements and awards

In 2018, LSR Group, its individual enterprises and development projects, and the Group's senior managers were recognized with a number of major Russian awards.

Awards received by LSR Group:

- "Investor of the Year" Award in the Best Social Investment Project category for the opening of an assisted living complex for people with physical and intellectual disabilities, in collaboration with the Association of Parents of Children with Disabilities (GAOORDI)
- Included in "Business Leaders: Energy Efficiency in the RAEX-600 rating compiled by the agency RAEKS-Analitika", a well-respected list of Russia's leading companies
- Winner in the Digitalization of Procurement Processes in the Construction Industry category of the Competitive Procurement Leader awards

Awards received by LSR Group enterprises:

- All three of the Group's property development business units received a Reliable Builder of Russia golden badge in 2018: LSR. Real Estate – North-West, LSR. Real Estate – Moscow, and LSR. Real Estate – Ural

Awards received by LSR Group development projects:

- The FIABCI Prix d'Excellence, Residential (Mid-Rise) Category (for the Neva Haus elite residential complex, St. Petersburg)
- Urban Awards, Premiere of the Year category (for the Neva Haus elite residential complex, St. Petersburg)
- Urban Awards, Best Elite Class Complex of the Year, St. Petersburg and Complex of the Year with the Best Architecture categories (for the Verona elite apartments, St. Petersburg)
- Urban Awards, Best Comprehensive Site Development Project, Best Landscaping and Infrastructure Concept, and Best Residential Complex, Moscow categories (for the ZILART business-class residential complex, Moscow)
- RREF Awards, Consumer Choice category (for the Luchi residential complex, Moscow)

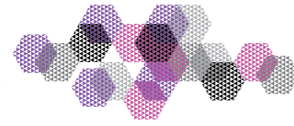
Personal awards received by LSR Group senior managers:

- Dmitry Goncharov, Deputy Chair of LSR Group's Board of Directors (Chair prior to August 2018) was included in the 25 Best Chairs of Boards of

Directors (ranking compiled by the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs in partnership with PwC and PJSC Moscow Exchange)

- Andrey Molchanov, Chair of LSR Group's Board of Directors, was ranked within the top 250 senior managers in the Top 1,000 Russian Managers ranking, published by the Association of Russian Managers (AMR)
- Vasily Kostritsa, LSR Group Deputy CEO for Building Materials, was included in the Top 100 ranking published by Delovoy Peterburg and recognized with an award as the best senior manager in the construction materials industry
- PJSC LSR Group Executive Director Galina Volchetskaya was ranked among the most influential women in St. Petersburg by influential business publication Delovoy Peterburg
- CEO of LSR. Real Estate – North-West Dmitry Khodkevich was awarded the annual Expert of the Year prize in the Construction and Development category, and declared 2018's best senior manager in residential construction by newspaper Delovoy Peterburg.





Managing risk in sustainable development

Identifying, assessing, and managing risk in a timely fashion, including risk relating to sustainable development, enables the Group to meet key objectives and goals that will help secure the Group's long-term success.

LSR Group employs a multi-level risk management and internal control system, which contributes to the Group's sustainability profile. Risk management and internal control policy falls under the oversight and management of the Company's Board of Directors.

Our Risk Management Policy was adopted in 2018 with the context of measures to improve the effectiveness of LSR Group's risk management practices.

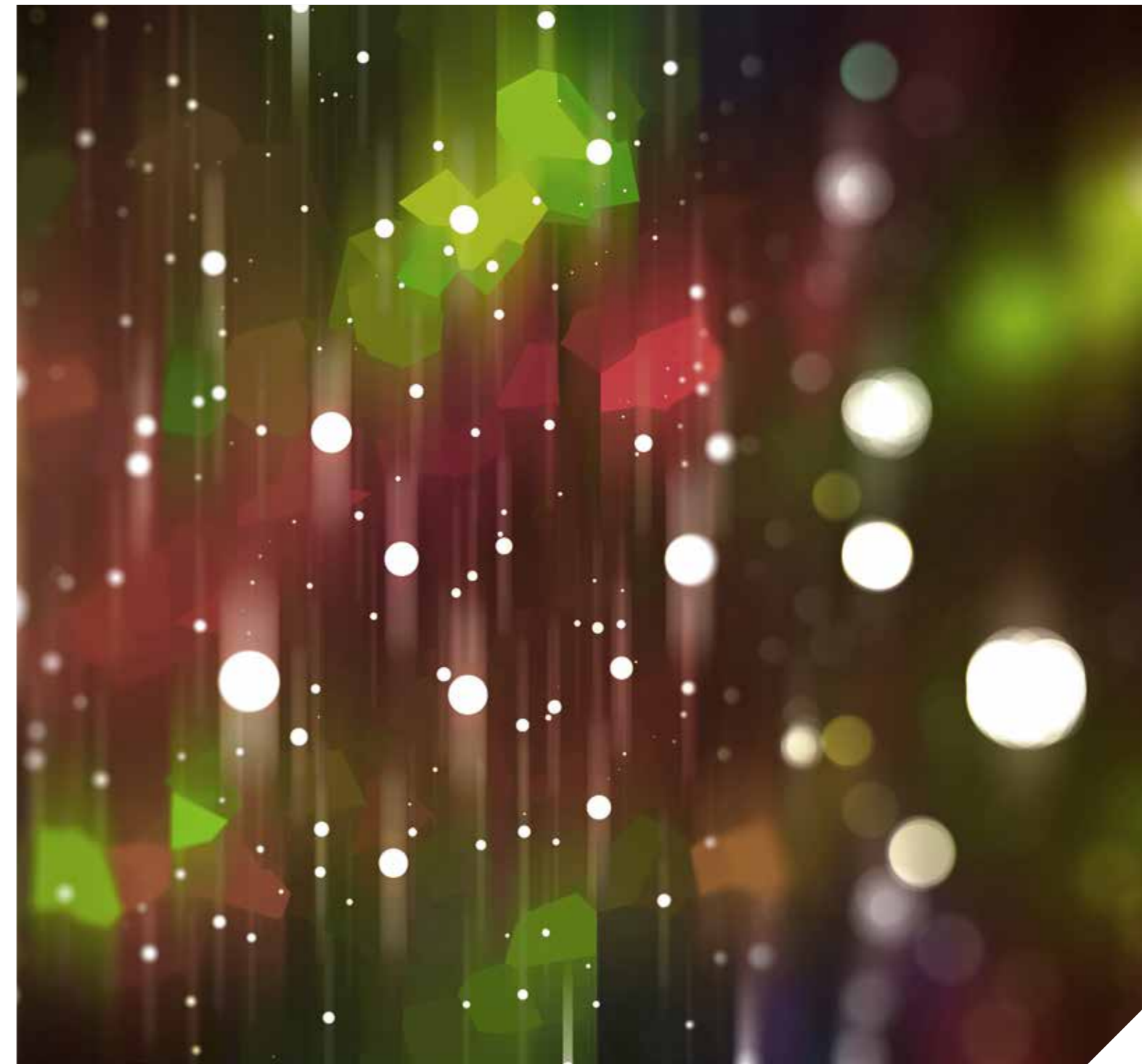
LSR Group companies manage operational risk in accordance with its corporate principles and procedures while also complying with local regulatory requirements. LSR Group companies have adopted relevant local regulations which govern the key business processes involved in their activities. LSR Group's centralized departments

carry out additional risk assessment depending on their activities.

The Group has determined that key sector-related, financial and legal risks could influence the objectives and goals set by the Group. A detailed overview of the risks associated with the Group's activities can be found in the LSR Group Annual Report for 2018. In corporate risk management, particular emphasis is placed on risks and challenges associated with the Group's sustainable development activities.

KEY SUSTAINABLE DEVELOPMENT RISKS

Risk areas	Explanation	Minimization measures
Occupational health and safety risks	Risks associated with fatal and non-fatal workplace accidents and incidents, and with work-related ill health.	<ol style="list-style-type: none"> 1. Compliance with occupational health and safety legislation. 2. Supporting corporate ethics and a safety culture. 3. Carrying out health and safety audits and inspections.
Risks associated with legislative changes	Risks associated with obtaining all of the necessary licences, permits, and approvals, and with any potential change and/or tightening of legislative requirements.	<ol style="list-style-type: none"> 1. Regular monitoring of legislative changes. 2. Taking decisions on how the Group and its companies should react to such changes and communicating these decisions to the individuals and subdivisions responsible.
Risks associated with human resources management	Risks associated with hiring, retaining, and motivating qualified staff.	<ol style="list-style-type: none"> 1. Supporting a competitive wage and incentive programmes. 2. Developing and implementing training and upskilling programmes. 3. Conducting employee assessments. 4. Implementing measures to provide social support to employees. 5. Joint programmes with educational institutions targeted at attracting young specialists.
Risks associated with violations of ethics and corrupt practices	Risks associated with unethical business conduct, violations of anti-corruption legislation, fraud, commercial bribery, and the distribution of insider information.	<ol style="list-style-type: none"> 1. Employee obligations to comply with our Code of Ethics. 2. Including anti-corruption clauses in employment contracts. 3. Informing and training staff, informing contractors and partners. 4. Regularly assessing the risk of corruption. 5. Rotating staff with a high degree of corruption risk exposure. 6. Operating the Trust hotline service. 7. Refining procurement systems, making the process more transparent and cultivating fair competition.
Risks associated with environmental impact management	Risks associated with negative environmental impact, and risks associated with non-compliance with established rules governing impact on aspects of the environment.	<ol style="list-style-type: none"> 1. Complying with environmental legislation. 2. Obtaining the necessary environmental licensing documentation. 3. Implementing measures to reduce environmental impact.
Risks associated with climate change	Risks associated with changing climatic conditions and their effect on buildings and equipment, the extension of regulatory requirements and emissions payments, and damage to the Group's reputation.	<ol style="list-style-type: none"> 1. Increasing the energy efficiency of production processes. 2. Reducing consumption of fossil fuels. 3. Preparing to implement tracking of direct and indirect greenhouse gas emissions. 4. Analysing the potential of utilizing alternative energy sources. 5. Constructing buildings that make use of energy-efficient technology.
Risks associated with customer relationships	Risks associated with failure to meet customer expectations and, correspondingly, with reductions in sales volumes and financial and reputational losses.	<ol style="list-style-type: none"> 1. Regularly improving mechanisms for interacting with customers and developing feedback channels. 2. Observing client-oriented principles and employee upskilling. 3. Processing complaints and improving the quality of Group products and services.
Risks associated with relationships with suppliers	Risks associated with the supply of poor-quality products and delayed deliveries.	<ol style="list-style-type: none"> 1. Assessing the qualifications and reliability of suppliers. 2. Improving internal procurement procedures. 3. Including additional requirements in the contracts.



Climate change

Risks associated with climate change have been treated separately for the reporting year. LSR Group shares the concerns of the global community with respect to the threats posed by climate change, and is conscious of the importance of taking action against it. Although measures to lessen these risks have already been adopted by the Group in previous years, we continue to work to improve our approach to climate change risk management.

One of the principal causes of climate change is the increase in atmospheric

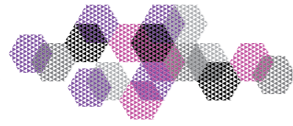
emissions of greenhouse gases created during the production and utilization of energy based on fossil fuels. As a company that is active in the real estate industry, we are conscious that we can make a significant contribution to the development of a low-carbon economy in Russia. According to the International Energy Agency*, approximately 36 percent of global final energy consumption and around 40 percent of carbon dioxide emissions are produced by buildings and the construction sector.

LSR Group's comprehensive approach to managing climate change risks includes measures

aimed at reducing direct greenhouse gas emissions created during production processes and our own heat and electricity generation. It also encompasses measures to reduce indirect emissions created during the consumption of purchased energy as well as in the consumption of energy by our customers in the houses and apartments that we sell.

We are also working systematically to implement methodological guidelines for calculating greenhouse gas emissions and to create a system for monitoring, reporting on, and analysing these emissions.

*International Energy Agency <https://www.iea.org/topics/energyefficiency/buildings/>



Stakeholder engagement

LSR Group is committed to establishing a sustainable and mutually beneficial relationship with all of its stakeholders that is founded on respect, cooperation, information transparency, and observance of obligations.

LSR Group's key stakeholders are individuals and organizations affected by the Group's actions, together with those who influence the Group's achievement of its objectives and goals. This group of key stakeholders includes our shareholders and investors, government bodies, our employees, our subcontractors and suppliers, our customers, local communities, and public organizations and the media.

LSR Group's priority is to strike a balance between the interests of our different stakeholder groups, and to respond rapidly to their expectations, needs, and concerns. In order to cultivate

LSR GROUP KEY STAKEHOLDERS



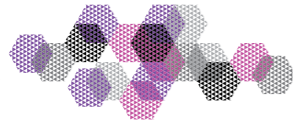
highly effective and sustainable cooperation with these groups, we employ tools and mechanisms to maximise interaction and to ensure that the interests, needs, and expectations of each

individual stakeholder group is taken into consideration. The Group also operates the Trust hotline, which any stakeholder can use anonymously to present any concerns to the Company.



KEY STAKEHOLDER GROUPS AND MECHANISMS FOR INTERACTING WITH THEM

Stakeholder groups	Area of interest	Mechanisms for interaction
Shareholders and investors	<ul style="list-style-type: none"> Operational and financial performance of the Group Growth in the Group's capitalization and the sustainability of its business Ensuring shareholder rights Transparency and openness of information 	<ul style="list-style-type: none"> General Meeting of Shareholders Publishing corporate reporting Publishing press releases, presentations, and news Participation in investment conferences Organizing site visits for investors Working with ratings agencies and analysts Holding roadshows and capital markets days
Government and regulatory bodies	<ul style="list-style-type: none"> Compliance of the Group's activities with legislative requirements Social programmes in key regions where the Group operates Limiting the Group's negative impact on the environment 	<ul style="list-style-type: none"> Preparing and publishing reports in accordance with legislative requirements Checks carried out by government bodies Acting on observations and directives Participation of the Group in law-making processes and initiatives
Employees	<ul style="list-style-type: none"> Comfortable and safe working conditions Development, training, and opportunities for professional growth Employment and a decent salary Social security and access to social programmes 	<ul style="list-style-type: none"> Establishing open, bilateral communication Reviewing messages submitted through the Trust hotline Using modern motivational techniques Holding sporting, charitable, and cultural events Establishing safe working conditions Supporting employee health Providing decent social and living conditions for employees Providing social benefits Training and upskilling at training centres Working together with educational institutions to attract young specialists
Customers	<ul style="list-style-type: none"> Ensuring that our products and services (real estate, building materials, etc.) are high-quality and readily available Fulfilling our agreements in a timely fashion 	<ul style="list-style-type: none"> Building high-quality, comfortable housing Monitoring the quality of our products Creating a pleasant social and cultural environment and improving sites Processing claims in accordance with our internal corporate regulatory documents Measures to improve the experience of our customers by providing them with better information, assisting them with completing documents and contacting us, extending our office hours, etc. Operating subdivisions responsible for working with customers Processing, examining, and preparing responses to messages received through all feedback channels, including the Trust hotline Holding meetings with interest groups Providing information through the media
Suppliers, subcontractor organizations, and other business partners	<ul style="list-style-type: none"> Compliance with mutual obligations Transparent, open, and competitive procurement procedures Long-term collaboration based on mutually beneficial conditions 	<ul style="list-style-type: none"> Concluding contracts and agreements Conducting competitive procurement procedures (http://zakupki.lsrgrupp.ru) Subcontractor screening and expert checks Assessing product compliance with safety and quality standards Conducting regular checks on subcontractors to ensure that products comply with stated requirements
Local communities	<ul style="list-style-type: none"> Contribution by the Group to the socioeconomic development of key regions where it operates Consideration by the Group of the interests of local communities as it conducts its activities Participation by the Group in resolving problems faced by local communities Developing infrastructure Revitalizing and preserving Russia's cultural heritage Supporting socially vulnerable groups 	<ul style="list-style-type: none"> Working together with charitable foundations and other non-profit organizations to implement social and charitable projects Supporting the construction of social infrastructure Organizing cultural events and entertainment for people living in regions where the Group operates Preserving architectural monuments and supporting cultural projects
The media	<ul style="list-style-type: none"> Provide stakeholders with complete, reliable, and up-to-date information about the Group's activities 	<ul style="list-style-type: none"> Publishing press releases about key Group events Holding briefings, presentations, and conferences to which media representatives are invited Holding personal meetings and providing interviews
Public organizations	<ul style="list-style-type: none"> Issues associated with the performance of the construction sector and lobbying for its interests Participation in regional development Development of professions in the construction sector 	<ul style="list-style-type: none"> Participating in activities arranged by trade associations Participating in relevant conferences, seminars, and forums Participating in professional and other relevant competitions Participating in the development of professional standards in the construction sector



Working with investors

As one of its key stakeholder groups, LSR Group devotes particular attention to its relationships with current and potential shareholders and investors. Establishing an effective and open dialogue with investors is an important element in attracting long-term finance, increasing the value of our business, and ensuring its sustainable development.

We keep in touch with our shareholders and investors through the following mechanisms and collaborative tools:

- Regularly publishing reports and results on the Group's website and holding telephone conferences;
- Regularly publishing material facts on the Group's website, on the Interfax news portal, and on the London Stock Exchange newsfeed;
- Publishing presentations for investors;
- Publishing press releases and news;
- Hosting roadshows and capital markets days;

- Participating in investor conferences;
- Organizing site visits for investors and analysts;
- Collaborating with ratings agencies;
- Researching investor perceptions of the Group; and
- Collaborating with analysts from advisory firms.

LSR Group's relationships with shareholders and investors are based on the principles of openness and information transparency. We believe that accurately and promptly communicating important news and events associated with the Group's activities is the key to strengthening trust in us as a business partner.

Annual, semi-annual, and quarterly reports on LSR Group activities are published on our website: www.lsrgroup.ru. The Group's operating results are disclosed on a quarterly basis, while consolidated, audited financial reporting in accordance with IFRS is published on a semi-annual basis. The disclosure of our quarterly, semi-annual, and annual financial and operating results is accompanied by the publication of presentations, press releases, and news for investors and shareholders. A total of 68 disclosures were made in 2018. Our website also features annual reports reviewing our real estate portfolio, in addition to other materials.

The Group works with a wide-ranging group of Russian and international investors. LSR Group interacts directly with investors through group and individual meetings. Group representatives also participate actively in major investor conferences, where investors have an opportunity to familiarize themselves with the Group's activities and performance and ask any questions they may have. In 2018 the Group participated in six investment conferences in Europe and Russia (including the Deutsche Bank CEEMEA Conference and the VTB Capital Investment Forum "Russia Calling!"). The Group held more than 100 meetings with current and potential investors over the course of the year.

The Group operates a feedback system which enables shareholders and investors to contact Group representatives and discuss issues that are of interest to them and receive a rapid response. The contact details for the Corporate Secretary and Director of Investor Relations and Sustainable Development can be found on the Group's website.

Collaborating with leading international ratings agencies is an important element of our work to increase the Group's attractiveness to investors. The Group's credit rating forecast has been assessed as 'stable' and 'positive' by major ratings agencies. This helps to maintain the Group's image as an attractive partner for a long-term investment.

Respecting human rights

The fundamental principles governing the activities of LSR Group include respect for human rights, which is enshrined nationally and internationally in:

- The legislation of the Russian Federation
- The principles of the UN Global Compact
- The Universal Declaration of Human Rights
- The International Labour Organization Declaration on Fundamental Principles and Rights at Work
- The United Nations Guiding Principles on Business and Human Rights

LSR Group is conscious of the importance of respecting and observing human rights, both in its relationships with its employees and with respect to external stakeholders who are affected by the Group's activities or products: its partners, its suppliers and subcontractors, its customers, and people in the regions where the Group operates.

Human rights principles are integrated into all key areas of the Group's activities and include the following provisions:

- the prevention of discrimination in all stakeholder relations, irrespective of gender, race, skin colour, ethnicity, language, origin, property, family or social status, occupation, age, place of residence, attitude to religion, political beliefs, or membership (or non-membership) of voluntary organizations or any other social groups;
- the provision of equal opportunities to Group employees in respect of selection, hiring, evaluation, promotion, training, development, discipline, compensation, and termination of employment contracts;
- the elimination of any form of child or forced labour; and
- the creation of safe and pleasant working conditions.

The principles of respect for human rights are reflected in the Group's fundamental internal documents concerning relations with employees and subcontractors and the regulation of social and other issues.

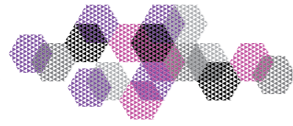
A list of key documents can be found in the 'Sustainable development strategy and management' section. LSR Group is presently working to improve its system for managing human rights issues.

One of the most important elements in this area is the availability of an effective mechanism for submitting and processing human rights complaints and requests. LSR Group operates the Trust hotline, which any stakeholder can use to confidentially submit a complaint relating to human rights violations. No cases of human rights violations were identified through operation of the hotline in 2018. More detailed information on the mechanism for submitting complaints and requests can be found in the Ethics and Countering Corruption section of this Report.



LSR GROUP CREDIT RATINGS

Rating agency	Rating	Forecast
Moody's	B1	Stable
Fitch	B	Positive
RAEX	ruA	Stable



Procurement activity

One of LSR Group's most important business processes is procurement: a set of measures aimed at securing quality goods for the Group within the required timeframes, from reliable suppliers, and under the most advantageous terms. The selection of reliable suppliers and the effectiveness of ongoing cooperation with them have a direct impact on the stability of production and the quality of the Group's products.

The key principles of LSR Group's procurement activity are:

- Transparency of information;
- Integrity of and equality between contractors;
- Use of a single, unambiguous set of criteria for assessing contractors and their bids;
- Objectivity and fairness in assessing contractors and their bids;
- Efficiency of procurement procedures;
- Professionalism and personal responsibility on the part of both buyers and contractors.

Optimizing the structure of procurement management

- One significant organizational change made in the reporting period was the decision to carry out centralized procurement in the form of the provision of services to Group enterprises.
- In 2019, we will be concluding agreements for the provision of services with all of LSR Group's business units.
- This step will enable us to optimize procurement processes, and will make it easier to regulate the volumes, prices, and quality of goods procured.

All Group procurement is carried out in accordance with the classification of the product range of goods and services into two types: centralized and local. Centralized procurement fulfils the core capital needs of LSR Group's business units and is the responsibility of the Centralized Procurement Directorate. Local procurement is carried out by the Group's enterprises on the basis of common principles and a single methodology.

In order to ensure a unified approach to procurement within the Group, regulatory documents which describe the principles and methods for working with suppliers have been developed.

Procurement issues are managed at the Group level by the Centralized Procurement Directorate, which has the following key objectives:

- Providing the Group's enterprises and assets with the most capital-intensive and important product ranges – the consolidation of volumes for the entire Group and economies of scale make centralized procurement highly efficient;
- overseeing the operation of a unified information system for electronic trading;
- providing methodological support for the procurement activity of all business units, including methodological support for the transition to managing procurement electronically.

Digitalizing procurement

We are constantly working to improve our procurement procedures, including their transparency and openness. Over the course of the last two years, we have devoted particular attention to implementing comprehensive automation of our procurement procedures and transitioning to our own electronic trading platform (ETP), zakupki.lsr.ru.

In July 2018, following extensive preparations, we conducted a test launch of our ETP, and the platform has been handling all Group procurement since September 2018. In connection with these changes, our new Regulation on Procurement, which includes updated requirements, also entered into force in September 2018.

The following measures have been taken as part of our full-scale transition to the new ETP:

- Employees requiring access to procurement services have been trained on-site (by teams visiting their enterprises) in working with the ETP and given explanations of our new procurement principles;
- The necessary instructions have been developed;
- The ETP has been explained to legal and economic security staff at sites; and
- A one-stop service has been established for queries about the new Regulation on Procurement and the way the ETP functions.

We are continuing our work to refine the ETP in order to ensure that the needs of its users are met as fully as possible. In order to increase the flow of contractors to the platform, it has been

LSR Group becomes Leader in Competitive Procurement

Autumn 2018 saw the winners of the Leader in Competitive Procurement Award gathered at a Moscow awards ceremony where procurement leaders were recognised. LSR Group won the special category 'For Digitalization of Procurement Processes in the Construction Industry'.

linked up to Russia's largest tender aggregators. This makes it possible to search for LSR Group procurements using convenient tools with which suppliers and contractors are already familiar. However, LSR Group's ETP remains the only entry point where our contractors can submit their bids. The service has been built to provide maximum convenience both for the tender organizer and for participants: the website makes it easy to track the status of a tender, plan procurement processes, and ask relevant questions.



To ensure that the ETP functioned effectively, a procurement information system was developed, tested, and implemented between 2017 and 2018. By the end of the reporting year, a set of video instructions had been prepared to train the platform's users remotely. The information system was brought online on 1 January 2019.

It ensures compliance with the requirements for all stages of the procurement process in accordance with the internal regulations and instructions. Furthermore, the system has been integrated with other relevant systems (including the ETP, the agreement approval system, and regulatory and reference information).

In 2019, LSR Group intends to continue developing its information system to assist with supply chain management. For example, the Group plans to integrate the information system into the budgeting process in order to increase budgetary controls on procurement contracts for construction and installation work.

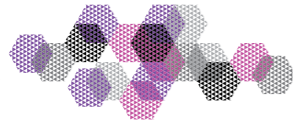
The ETP and procurement information system's main objectives

The key overall goal of the changes that have been introduced is to improve the efficiency of the procurement process to ensure that the Group's requirements for products are met on time and in full, at the best possible price, and with optimal quality and supply conditions.

This goal includes a number of important objectives:

- Developing fair competition and improving the openness and transparency of procurement
- Increasing the flow of subcontractors by creating a single, simple, convenient mechanism for submitting bids
- Minimizing human error through automated procurement procedures
- Expanding possibilities for analysing procurement outcomes
- Administering internal control/audit of the procurement management system and associated risks

“The selection of reliable suppliers and the effectiveness of ongoing cooperation with them have a direct impact on the stability of production and the quality of the Group's products.”



Selecting and assessing suppliers

LSR Group conducts procurement planning on an annual basis. The Group's key methods for conducting procurements are simplified procurement, tender, and request for quotation, in addition to special procurement procedures.

When preparing and carrying out procurement processes, we formulate requirements with respect to the participants in the process, the products to be supplied, and the conditions of supply. For competitive purchases, we establish assessment criteria. These must satisfy the principles of objectivity, unambiguity, and uniqueness.

Contractors are reviewed and selected in two key stages:

1. Supplier accreditation on the basis of data submitted using an electronic form that is part of the supplier's personal account on the ETP, in addition to freely available information about the contractor. At this stage, suppliers confirm that they satisfy a number of key requirements, including economic security requirements, essential product safety standards set by the Russian Federation, etc. Suppliers who pass the accreditation stage move on to the bid request stage.
2. A detailed review of the candidates to ascertain their reliability; requests for information and documents confirming the accuracy of statements made in the application form about suppliers' experience and capacities; and visits by LSR Group representatives to production sites to assess production culture, including approaches to ensuring product quality.

In the event that a supplier with whom contractual relations have been concluded subsequently violates requirements relating to quality of or delivery dates for the products supplied, Group specialists carry out an assessment of the reasons for these violations (including by visiting production sites) and develop appropriate recommendations to rectify them.



Assessing the impact of procured products on people and the environment

- When preparing procurement documents, we also take into account safety requirements for goods and products established by Russian legislation and by LSR Group's internal standards. Requirements for procured products are determined in such a way as to limit potential negative effects on people and the environment.
- The risk of procured goods and products having a negative impact is evaluated at the supplier assessment and selection stage. For example, suppliers are asked to implement test protocols to verify that finishing materials comply with public health and hygiene requirements in order to ensure that completed LSR Group apartments provide a comfortable living space.

Key procurement outcomes

In connection with the expansion of production activities, the scale of LSR Group procurement increased by 13 percent in 2018 to RUB 73.7 billion compared with 2017. The majority of procurement processes (54 percent) related to contractor work, 34.2 percent related to the procurement of goods and other services, and 11.8 percent was connected to the procurement of monopoly services.

The number of suppliers with which LSR Group works also grew in 2018 to approximately 6,000, while the Group's supplier base expanded

to include 13,000 contractors. To improve the stability of supplies and ensure the most advantageous conditions possible, we plan to strengthen and develop our relationships with our regular suppliers.

We carry out centralized procurement with our major suppliers, who include both producers and dealers. When selecting contractors, we favour direct producers (all other things being equal). In 2018, procurement from producers accounted for 64.9 percent of total centralized procurement volumes.

Social and environmental responsibility and our suppliers

The work done by contractor companies hired to carry out construction and installation work is performed directly at LSR Group sites. Accordingly, we devote particular attention to our processes for collaborating with contractor companies and for monitoring the progress of construction work.

Contracts concluded with providers of construction services include requirements to comply with standards established in legislation and project documentation with respect to:

- Ensuring occupational, industrial, and fire safety
- The treatment of waste, the treatment of natural resources, and prevention of air pollution
- Public health and hygiene

In order to establish a more precise and easily understood mechanism for sharing rights and obligations between the contractor and the client with respect to construction services, we developed a new standard general contractor agreement in 2018. This standard agreement includes regulations for cooperation between the parties on safe working practices, rights, obligations, and liability for failing to uphold these obligations. Another integral part of these regulations is the imposition since 2018 of fines for violating safety requirements, as well as environmental and sanitary standards.

LSR Group enterprises acting as clients with respect to construction work are entitled to conduct checks, either independently or using specialist organizations, to verify that the contractor is operating in compliance with the established requirements. In

the event that violations on the part of contractor organizations are identified, instructions for rectification are issued and fines are imposed in accordance with the terms of the agreement; in the event of serious violations that endanger lives or health, the work is halted. Resumption of work is approved once the causes of the danger have been eliminated.

In 2018, new rules and procedures were implemented, including a significant strengthening of checks on contractor companies' compliance with safety requirements. As a result of control procedures carried out during the reporting year, appropriate measures were applied that included halting construction work. In spite of the potential losses that such measures entail, safety remains our priority, and we are committed to developing a culture of responsibility among our suppliers.

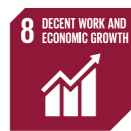




Occupational health and safety

LSR Group is fully committed to ensure safe working conditions for its employees and other individuals working with the Group. Minimizing risks and preventing situations that endanger the lives and health of employees count among the Group's highest priorities and are a key factor in its further sustainable development.

KEY FIGURES FOR 2018



UN GLOBAL SUSTAINABLE DEVELOPMENT GOALS

UN GLOBAL COMPACT PRINCIPLES

Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2. Businesses should make sure that they are not complicit in human rights abuses.



“
In order to ensure compliance with regulations at Group companies, internal OHS checks and audits are regularly performed and special assessments of working conditions are carried out.

Approach to occupational health and safety management

LSR Group guided by occupational health and safety (OHS) legislation in all of the regions in which the Group operates, and also take into account international initiatives and leadership in this area. LSR Group business units operating in the construction industry are also subject to industry agreements, including provisions establishing OHS requirements.

In 2018, LSR Group developed and adopted an Occupational Health and Fire Safety Policy. In this document the Group's management set out its unconditional position requiring strict compliance with legislation, state regulatory requirements, and voluntarily assumed obligations with respect to occupational health and industrial and fire safety. The policy specifies the key goals, principles, and obligations of the Group in these areas.

LSR Group activities concerning occupational health and industrial and fire safety are grounded in the following principles:

- Prioritizing employees' lives and health over the Group's performance;
- Making managers responsible for ensuring safe working conditions;
- Making Group employees and contractors responsible for their own safety and the safety of those around them, with the right to step

in in the event of non-compliance with safety requirements;

- Involving all Group employees in activities focused on cutting the number of accidents and occupational injuries and diseases; and
- Prioritizing preventive measures in all aspects of occupational health and industrial and fire safety.

Direct management of OHS issues is practised at the level of LSR Group's business units, the directors of which are responsible for ensuring safe working conditions for their employees. OHS teams or departments operate within each of the Group's business units.

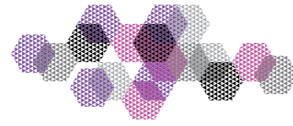
Occupational health management systems are in operation at LSR Group companies, helping to identify and reduce the risk of injury and ensure safe working conditions for employees and safe use of buildings and equipment. The activities of the teams and departments concerned are governed by the local Regulation on the Occupational Health Management System and Regulation on the Organization and Implementation of Industrial Monitoring of Compliance with Health and Safety Requirements at Hazardous Industrial Sites. These regulations have been developed in accordance with the requirements of Russian legislation*.

In order to ensure compliance with regulations at Group companies, internal OHS checks and audits are regularly performed and special assessments of working conditions are carried out. Risks associated with dangerous situations which could negatively affect the lives or health of individuals are assessed and analysed on a continuous basis. In addition, a quarterly report on OHS compliance is compiled and submitted to the Executive Committee for review.

The actual and potential impact of Group activity on human health is also assessed during the preparation of new projects for implementation, by drafting pre-project and project documentation to a high standard and carrying out the necessary expert appraisals.

We also ensure that our safety requirements extend to our contractors by including relevant provisions in our agreements with them. In addition, all standard contractor agreements used since the second quarter of 2018 have included clauses making contractors responsible for compliance with occupational health and industrial and fire safety requirements, and fining them for non-compliance. In the event of non-compliance with occupational safety requirements, the contractors' work may be halted until all violations have been rectified, and appropriate measures are taken with respect to workers and companies.

* The Labour Code of the Russian Federation, the Federal Law 'On Industrial Safety at Hazardous Industrial Sites', the Russian Federation Sanitary Rules and Regulations (SanPIN), and institutional regulatory documents on occupational health and safety at construction and industrial sites.



Preventing injuries

Every year, the Group's companies develop and implement programmes designed to prevent workplace injuries. These programmes include measures to train employees in occupational health and safety, to procure and supply employees with the necessary personal protective equipment, and to outfit workplaces in accordance with safety requirements.

We are committed to developing an occupational safety culture in which each employee takes personal responsibility both for their own life, and for the lives and health of their colleagues. Safety briefings are held on a regular basis, as are information sessions on dangers and risks. Employees' adherence to occupational safety requirements is taken into consideration when calculating their bonuses and the variable component of their salary. Financial incentives are employed not only to motivate employees who violate health and safety requirements, but also to motivate managers in cases where accidents occur that are the result of a failure to ensure safe working conditions.

Our occupational health and safety complaints submission procedure

Various mechanisms are in place at LSR Group for processing complaints and requests from all participants in our production activities. These mechanisms enable us to respond rapidly to any issues concerning safe working conditions for our employees or protecting the health of people living in the regions where the Group operates.

Any issues concerning compliance with employment legislation, including the assurance of safe conditions and occupational health and safety, are examined by a commission for labour disputes which is in operation at each of the Group's business units.

Specialized OHS commissions are in place at each Group company subdivision. The members of these commissions include authorized trade union representatives who present written or oral complaints relating to occupational health and safety for the commission to examine, participate in the approval of Group enterprises' local regulatory documents, and take part in the resolution of other issues relating to compliance with OHS requirements at Group enterprises.

Employees of Group companies are able to submit complaints and questions using the telephone hotlines in place for the relevant subdivisions. Relevant phone numbers are placed on the information boards at the Group's business units. We ensure that all employees hired to work at the Group are informed about how to submit complaints and requests as part of their induction training.

One important area of activity is systematic monitoring of the technical condition of Group production sites, which is conducted in order to ensure safe usage of buildings and equipment. Depending on the outcome of the technical monitoring process, documents are produced which include recommendations either for the continued usage of the production sites or for their decommissioning.

A series of measures was implemented in 2018, with a focus on the following areas:

- Implementing the requirements of the Three-Step Compliance Monitoring System for OHS and fire safety requirements;
- Making changes to internal regulations in connection

with the introduction of new (or changes to existing) occupational safety laws (Rules for Occupational Health and Safety in Road Transport, Rules for Occupational Health and Safety in Construction with amendments dated 31 May 2018, among others); and

- Ensuring that Group specialists responsible for occupational health and safety undergo both regular training and additional sessions on changes to legislation.

A total of ten accidents occurred at Group companies in 2018. This is 71 percent less accidents than in 2017. The LTIFR fell by 59 percent to 0.54. The majority of injuries sustained (nine of the ten) were light in nature, and no accidents resulted in a fatal outcome.

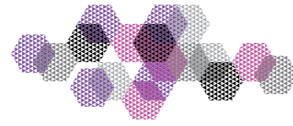


Procedure applied on identification of situations that endanger lives and health

Every Group employee is entitled to refuse to carry out work in the event that a threat to life or health has been identified. This provision, together with the procedure to be applied in such cases, is established in the local regulatory documents of the enterprise in question. Employees familiarize themselves with these documents, signing to confirm that they have done so, upon the documents' entry into force or when the employee is hired. The relevant documents include OHS instructions for different professions and types of work, role-related (working) instructions, process checklists, and the Regulation on the Occupational Health Management System at the enterprise. The employee may only proceed with the work once the cause of the situation representing a threat to life or health has been eliminated.

In addition, once an enterprise employee has identified a situation that endangers their life or health, they are obliged to inform their employer using any of several permitted means:

- Communicating orally or in writing with the direct manager of the work or with the manager of the working area;
- Making an entry in the Step I control log of the Three-Step Compliance Monitoring System;
- Informing a trade union representative responsible for occupational health and safety in the employee's section or subdivision;
- Telephoning or informing OHS team specialists in any other convenient way about any threat to life or health faced either by the employee or by their colleagues;
- In the event of disputes, contacting the labour dispute commission and completing the required form and statement of facts; and
- Contacting the management (CEO) personally or submitting a statement that includes the necessary facts



WORKPLACE INJURIES AT THE GROUP, 2016–2018*

Indicator	2016	2017	2018
Total number of on-site accidents	30	34	10
Number of people injured as a result of on-site accidents (total number of injuries)	30	34	10
Including:			
Number of people injured with a fatal outcome (FA)	2	3	0
Number of people injured resulting in lost time (LT)	28	31	10
Injury rate (IR, per 1 million man-hours)	1.09	1.44	0.54
Severity rate (SR)	83.00	90.80	81.00
Absenteeism rate (AR, %)	0.07	0.07	0.04

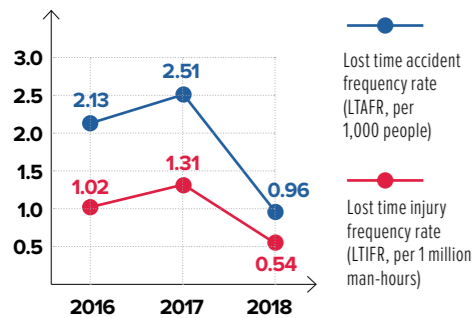
Calculation methods:

IR = Total number of injuries / Number of man-hours worked × 1 million man-hours.

SR = Total number of days of temporary incapacity resulting from on-site accidents, with sick note confirming incapacity / Total number of on-site injuries sustained by employees.

AR = Number of days of actual absence from the workplace (over the entire period) / Total number of days that should have been worked over the reporting period according to schedule × 100 percent.

GROUP LTAFR AND LTIFR RATES FOR 2016–2018

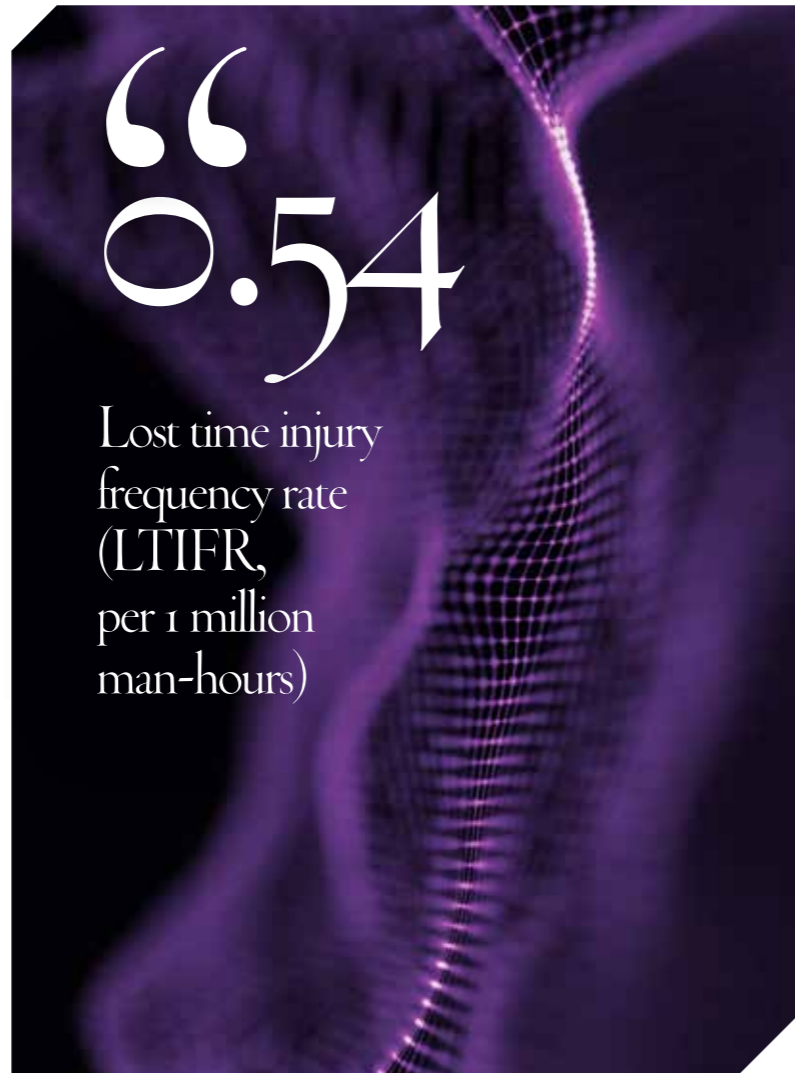


Calculation methods:

LTIFR = Number of injuries resulting in temporary incapacity / Number of man-hours worked × 1 million man-hours

LTAFR = Number of accidents / average number of employees over reporting period × 1,000 employees

* Some of the data for 2016–2017 (the number of workplace accidents and injuries, FA, LT, IR) has been adjusted to reflect more precise investigative data and the introduction of a more precise methodology for calculating the figures.



These impressive results were achieved thanks to the Three-Step Compliance Monitoring System for OHS and fire safety requirements, which has been in operation since the second half of 2017. In accordance with this system, officials and commissions have been appointed at the Group's business units to monitor compliance with safety standards at production sites, using tools such as specially-produced checklists. A quarterly report on OHS compliance is compiled and submitted to the Executive Committee for review. Introducing the Three-Step Compliance Monitoring System has enabled us both to improve our monitoring of engineers' and technicians' compliance with the relevant requirements, and to involve Group executives in these monitoring efforts.

The causes of each accident were investigated by special commissions, and measures taken to prevent any similar situations from occurring in the future. The major cause of workplace injury remains the human factor, which includes non-compliance by employees with safety instructions and negligence at work.

We plan to continue improving existing safety management approaches and mechanisms over time. In particular, Group companies are examining the possibility of employing cutting-edge technologies capable of preventing workplace injuries. We are also fostering collaboration with specialist organizations, government bodies, and other stakeholders with the goal of sharing experience and best practice.

Occupational health

Caring for the health of our employees and taking steps to prevent and reduce the incidence of overall and work-related ill health are important objectives for LSR Group. Annual measures include medical examinations for employees, 'Health Days', and sports events. Group employees participate in sports contests, bike rides, and other events intended to cultivate a healthy lifestyle.

A number of Group companies also provide medical insurance programmes including emergency care, annual vaccination of employees, and first aid stations at Group companies or

contractual services provided by nearby medical institutions. Production site monitoring programmes have been developed at Group companies. These require compliance with hygiene regulations and the implementation of public health (preventive) measures.

A separate set of occupational health measures is devoted to preventing and reducing incidences of occupational diseases which employees at Group companies are at risk of catching. Three cases of occupational diseases were identified at LSR. Basic Materials in 2018.

Aiming to minimize the risk of occupational diseases, we devote special attention to implementing the following measures:

- applying and improving individual and collective protective measures;
- conducting professional screening and expert assessments of unsuitability;
- improving the effectiveness of preliminary and periodic medical examinations;
- and implementing technological measures to mechanize and automate production.



HR management

Our staff are one of LSR Group's key strategic resources, providing us with a competitive advantage. We aim to create the best possible conditions for our employees to realise their potential and develop their professional skills. The Group's HR policy ensures that our employees receive a decent wage and social support, as well as a necessary training and assistance for their professional and career development. Meeting these objectives enables us to maintain high employee productivity and performance, thereby laying the foundation for LSR Group's future success.

KEY FIGURES FOR 2018

AVERAGE NUMBER OF GROUP EMPLOYEES

11,677

AVERAGE SALARY (UP 17% COMPARED WITH 2017)

RUB 57,455

NUMBER OF EMPLOYEES WHO COMPLETED TRAINING

3,611

INVESTMENTS IN SOCIAL PROGRAMMES FOR EMPLOYEES

RUB 196 MILLION



UN GLOBAL SUSTAINABLE DEVELOPMENT GOALS



UN GLOBAL COMPACT PRINCIPLES:

PRINCIPLE 1. Businesses should support and respect the protection of internationally proclaimed human rights.

PRINCIPLE 2. Businesses should make sure that they are not complicit in human rights abuses.

PRINCIPLE 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

PRINCIPLE 4. Businesses should uphold the elimination of all forms of forced and compulsory labour.

PRINCIPLE 5. Businesses should uphold the effective abolition of child labour.

PRINCIPLE 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.



Approach to HR management

We are committed to implementing a uniform approach to HR and social policy within all business units, while preserving the ability of Group companies to cultivate their own HR management processes that take into account the nature of their operations. One important organisational change implemented in 2018 was the centralisation of Group enterprise HR functions under the centralised Human Resources Directorate. HR records are now maintained and staff managed on the basis of service provision agreements concluded with Group companies. The aim of this project was to improve the performance of HR subdivisions and increase the quality, accuracy and speed of information provided to the Group's leadership concerning HR management developments and outcomes.

The following communications measures are now in place for an effective coordination of the HR management system across the Group:

- Uniform HR policy standards are applied in accordance with

the corporate standards and regulations, as well as the local regulations

- Standard indicators and budgetary limits related to the social policy are communicated across the Group via the annual information letter on 'Creating a Social Policy Budget'
- Meetings of HR directors are held at the end of each year to discuss outcomes of the preceding period and plans for the year to come
- Over the course of the year, a number of HR projects are implemented across all Group companies as well as individual

business areas, while HR specialists from different companies work together in project teams, applying their knowledge and experience

- Weekly meetings are held to discuss operations
- Reports on key HR figures are prepared on a weekly, quarterly and annual basis, while the domestic wage market is monitored on a monthly basis

We comply with legislative requirements in respect of employee relations, and develop regulatory documents for areas where no requirements have been established at a legislative level.

Key LSR Group regulatory documents for HR and social policy:

- Code of Ethics
- Personnel Selection and Recruitment Regulations
- Employee Onboarding Regulations
- Information letter on 'Creating a Social Policy Budget'
- Regulation on Corporate Awards
- Regulation on Housing Programmes



We are guided by human rights principles across our Group companies, complying with both the mandatory obligations in accordance with the current legislation and obligations undertaken by the Group voluntarily in accordance with the terms of employment contracts. In addition, there are various mechanisms in place within the Group aimed at protecting the rights and interests of employees. In 2018, trade unions were active in three Group companies (AO "LSR Krany-SZ", LSR Stenovye, OOO "LSR.Stroitelstvo-SZ"). Working together with these trade unions, we develop provisions for collective agreements at these companies. In 2018, 42 percent* of our employees were covered by collective agreements. LSR Group also provides all

of its employees with a safe, confidential and accessible means of reporting concerns and submitting complaints (the Trust hotline). While planned checks carried out by the State Labour Inspectorate across a number of LSR Group companies, there were no identified violations in 2018. At the same time, an internal audit carried out by the Human Resources Directorate yielded some general recommendations for improving the way HR records are currently managed. As part of measures to automate HR management processes, the Group continued working on its project to transition to an updated version of the 1C: Payroll and HR Management software. We plan to complete transition in 2020 and will then move on to the next stage of the project: automating records

of HR management efficiency figures. In addition to automating HR management functions, the introduction of the new software will enable us to simplify HR record-keeping and payroll accounting.

LSR Group has set the following HR management goals and objectives for the short- and medium term:

- Developing an HR branding programme for the Group
- Standardising HR processes at Group companies to reflect the centralisation of HR functions
- Assessing the effectiveness of current HR procedures
- Developing employee qualifications

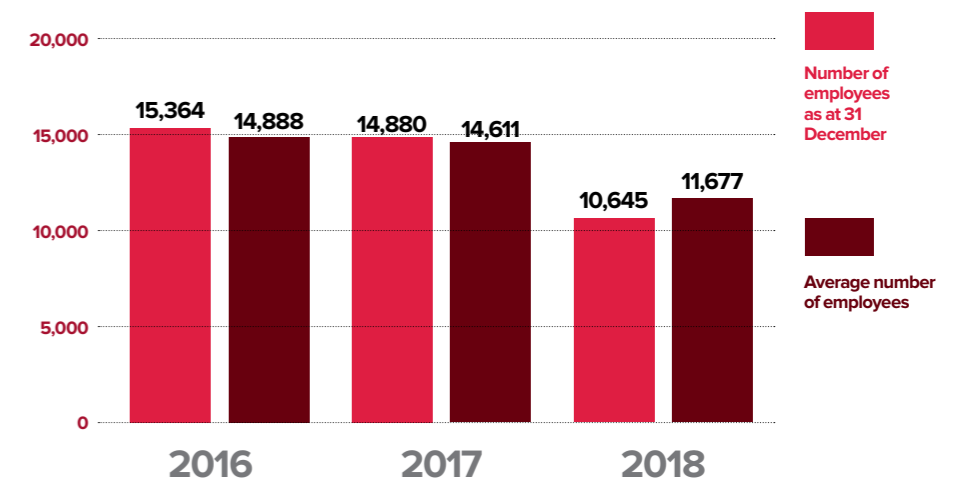
Personnel structure

LSR Group is one of the largest employers both in its sector and in the regions where it operates. In 2018, the Group employed an average of 11,677 people (down 20 percent year-on-year), with a total of 10,645 employees as of 31 December 2018 (a decrease of 28 percent year-on-year). This reduction in numbers reflects the sale of several production companies in 2018: LLC DSK Progress (LLC LSR. Construction Moscow), OJSC Zavod ZhBI-6, and JSC Barrikada.

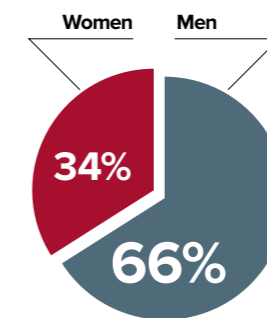
Employees of LSR Group's companies in Russia comprised 96 percent of the Group's total workforce as of the end of 2018. The majority of employees work in Group companies in the North-Western region, while the remaining 19 percent are placed across other regions where LSR Group operates. Due to the nature of the Group's activities, 66 percent of our employees are male. The share of the production workforce category slightly decrease in 2018 compared to 2017 and amounted to 75% of the employees. This change was driven by the sale of some of the Group's production assets. Men made up 21 percent and 4 percent of our administrative and sales staff, respectively.

LSR Group employs workforce of all age groups. Whilst more than 50 percent of all LSR Group personnel are either young specialists (26–35 years) or employees of the middle age group (36–45 years), LSR Group also values experienced specialists and front-line workers who pass their professional knowledge and skills on to their younger colleagues. Around 20 percent of the Group's total workforce fall within the age group of 56 and above. We are committed to offering permanent employment contracts to almost all of our employees (97 percent of Group staffs as of the end of 2018). The majority are also full time employees (97 percent of Group employees as of the end of 2018).

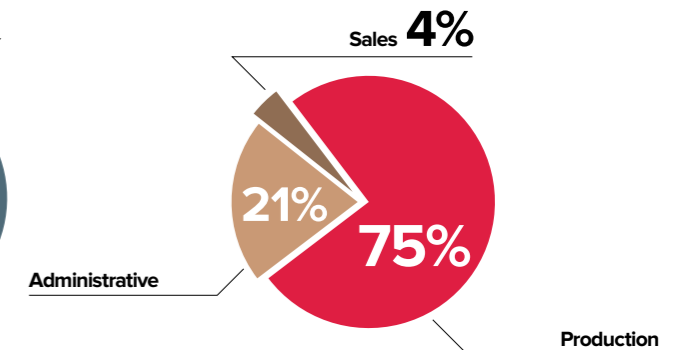
NUMBER OF LSR GROUP EMPLOYEES IN 2016–2018



EMPLOYEE GENDER BREAKDOWN OF LSR GROUP IN 2018, %



LSR GROUP PERSONNEL BREAKDOWN IN 2018, %



* Percentage of LSR Group employees on the payroll as at 31 December 2018.



Attracting staff

The construction sector is characterised by a high turnover rate of staff, mainly due to the project-based nature of construction projects. In 2018, LSR had a 28 percent rate of turnover. Therefore, attracting new staff is one of our top priorities. The key target group for LSR Group is production workers. We are particularly interested in qualified workers such as electricians, welders, and maritime specialists, as well as those with fewer qualifications, offering them an opportunity to undergo further training and development at LSR Group's training centres.

We also work closely with training institutions to attract young qualified personnel. Our pool of partner institutions was updated in 2018 to take companies' current requirements into account. This pool is primarily composed of secondary specialist training institutions in St. Petersburg, the

NEWLY RECRUITED EMPLOYEES AND TURNOVER ACROSS THE GROUP, 2016–2018

Indicator	2016	2017	2018
Number of newly recruited employees	4,625	4,676	3,004
% newly recruited employees	30%	31%	28%
Number of employee turnover	4,530	4,215	2,929
% employee turnover rate	29%	28%	28%

Leningrad Region, the Republic of Karelia and Yekaterinburg. In addition, LSR Group participates in careers fairs held for students from relevant training institutions. Group employees also participate in various round table events and professional championships held by different institutions. In 2018, our focus was on proactive collaboration with students. Not only this is a great opportunity to attract students and graduates who are a better fit for our companies' vacancies and provide us with a

fresh pool of young engineers, but it also gives students chance to obtain fully-fledged practical experience and secure potential future employment. All our new employees undergo a special orientation programme, the main purpose of which is to reduce the time it takes for new employees to settle into their roles and to improve employee engagement and loyalty. We also run introductory training sessions for new employees alongside our introductory tours of Group companies.

Training and development

LSR Group operates in an environment of constantly changing consumer needs, growing competition and ever-evolving technology. All of these factors underline the importance of refining internal processes and, in particular, ensuring a high degree of professionalism among our employees. That is why we place greater focus on training and upskilling employees, as well as assessing their managerial skills and personal qualities.

Training programmes for specialists and line managers are run by LSR Group's Corporate HR Assessment and Development Centre.

The corporate specialist training and education system includes the following programmes:

- Tools for Effective Operations, a programme developed for promising specialists with the potential to become managers in the near future
- The Competent Manager, a long-term corporate programme for management
- The Business Expert programme, which comprises three training courses (Business Finance and Economics, Marketing Management and Data Analysis and Excel Modelling)

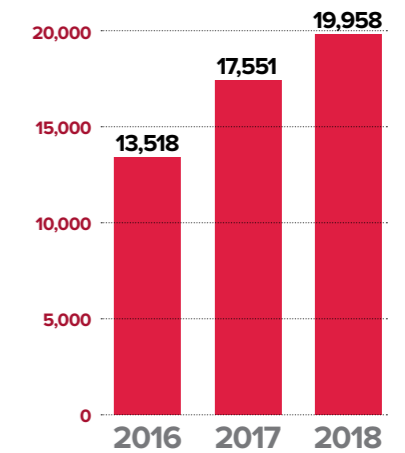
In 2018, we developed and successfully delivered two new programmes, Mindfulness in Public Speaking and the Effective Leadership Workshop, which were attended by 21 and 19 employees, respectively.

In addition to programmes conducted by LSR Group employees, we also organise training sessions with external coaches and instructors. In 2018, teaching staff from Peter's the Great St. Petersburg Polytechnic University ran the latest Fundamentals of Construction programme, which has already become a tradition. Additional seminars and masterclasses were organised for the Group's senior managers, as well as managers and specialists from our sales subdivisions.

One of our priorities is to create a talent pool of line managers. A total of 90 Group employees underwent assessment of their managerial and personal skills in 2018; each received feedback and recommendations for their further development and improvement.

Licensed trade training centres also operate within certain Group companies, and the Group orders trainings at external training institutions, if required. More than 3,600 employees from Group companies in Russia completed various training and skills development programmes in 2018, including more than 1,700 front-line

TRAINING EXPENDITURE, 2016–2018 (RUB THOUSANDS)



workers. A total of RUB 20 million was spent on training programmes during 2018, up 14 percent year-on-year.

In 2019, we plan to continue running our traditional programmes, while developing a range of new training courses. As part of our Business Expert programme, for example, we will be launching a new course "Development of Successful Negotiations Strategies, Conflict Management and Profitable Deals". The Group will also develop a new medium-term programme for improving public speaking skills.





Motivating employees

LSR Group has a well-developed staff financial motivation system based on employee performance and provides for competitive and fair remuneration. We guarantee our employees a stable income and timely payment of salaries and wages.

The average salary of LSR Group employees in 2018 was RUB 57,455, a 17 percent increase compared to 2017. Excluding deductions for social contributions, total labour cost in 2018 amounted to approximately RUB 9.7 billion. In order to ensure the competitiveness of salaries and wages in the regions where LSR Group operates, we adjust our payroll when we reach our target figures.



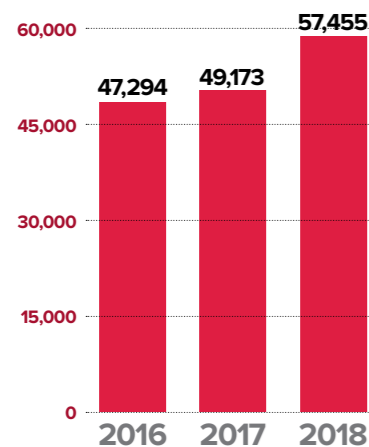
The remuneration scheme that we apply is designed to increase employees' personal commitment to achieving the Group's strategies and business goals. A piece rate system of wage payment is used for manufacturing jobs and is directly related to results achieved. Salaries of specialists and line managers consist of a fixed salary and a variable (motivational) component. The size of this variable component is determined by responsibilities and depends on the performance during the reporting period. This approach allows salaries to be linked to employee productivity levels.

Effective incentive programmes for senior managers are in place whereby the size of their remuneration depends on the achievement of the Group's strategic goals and individual performance indicators. The base indicator for the remuneration is achieving the net profit target. In 2018, the total number of employees whose remuneration included a variable (motivational) element depending on the performance assessment was 343 (managers, line managers and some specialist).

In terms of non-financial incentives, the Group gives corporate awards twice a year. This initiative helps to encourage employees to achieve impressive operational results. In 2018, LSR Group awards were presented to 224 employees, including five who received the Group's highest accolade: the Best in LSR Golden Pin.

LSR Group employees also receive various departmental, municipal and public awards for their achievements in the construction, manufacturing and building materials sectors. At least 117 employees received such awards in 2018.

AVERAGE SALARY OF GROUP EMPLOYEES IN 2018, RUB



Our new Long-Term Incentive Programme for key employees

At the end of 2018, LSR Group's Board of Directors approved a new Long-Term Incentive Programme (LTIP) for key employees. 150 employees are expected to participate in the new LTIP which will run between 2019 and 2023. In accordance with the LTIP, programme participants will be awarded the Company's shares upon achieving key strategic goals.

The approved programme is in line with global best practices in this area and is developed to further improve the incentive system. The key objectives of the LTIP are to achieve the long-term financial and strategic goals of the Group, maintain a strong management team and to bring their interests closer to the interests of our shareholders.

LSR Group Housing Programme

The LSR Group Housing Programme gives employees the opportunity to purchase housing at Group sites that are either under construction or have already been completed. We also offer discounts to employees depending on the duration they worked in the Group. This programme has proved popular and in 2018, 186 employees took advantage of our discounted housing.

Growing with LSR Programme

Growing with LSR is a corporate social programme aimed at promoting skilled trades in construction, raising awareness of the LSR Group brand and increasing employee engagement through employee participation in corporate events. The programme is run across all regions where LSR Group operates and was allocated RUB 6.5 million in 2018.

The Growing with LSR Programme is intended for employees, customers, partners and their children; participants in the Group's charitable projects; as well as students of institutions of higher and secondary professional education.

In 2018, we conducted 24 events as part of the programme, including creative, cultural and educational competitions, trips for employees and their children (including trips to work sites), and masterclasses. We also arrange excursions and entertainment programmes at Group companies and construction sites for LSR Group partners and clients.

Sporting events

LSR Group promotes healthy lifestyle among its employees. The Group has its own corporate football and volleyball teams. It is also an active participant in different sports competitions between construction companies in a variety of disciplines, often taking the first place.

Social policy

LSR Group's social policy is aimed at creating a comfortable working environment and improving the wellbeing of employees and their families. This, in turn, helps to boost staff motivation and performance.

Key areas of the social policy include:

- financial assistance to employees and their families
- reimbursement of food costs for front-line personnel
- provision of decent social and living conditions for employees
- medical insurance, including emergency medical care, first aid stations at Group companies or contractual services provided by nearby medical institutions, and annual vaccination of employees
- organisation of large-scale corporate sports events
- corporate events and programmes for employees' children
- a housing programme
- discounts on building products manufactured by Group companies

A total of RUB 196 million was allocated for LSR Group's social programmes in 2018, including approximately RUB 12.7 million to provide financial assistance to employees.

Employees are kept informed of all measures of social support available to them via our internal communications system. This includes new employees who learn about these measures during our introductory training sessions and via our intranet, as well as employees without computer access, who are kept informed via information posters at Group companies, our corporate magazine and employee groups on social networks.

In 2018, our Partner Loyalty Programme benefitted from new developments in all three of the main regions where the Group operates. Under this programme, LSR Group works together with a wide range of companies offering products and services that may be of interest to our employees. All of the products included in the programme are provided on exclusive terms designed specifically for LSR Group employees.





Ethics and anti-corruption

LSR Group is guided by the principles of honest, transparent and ethical business conduct. Issues related to countering abuses of all kinds, including corruption, fraud and commercial bribery, are central to the Group's management.

KEY FIGURES FOR 2018

NO CONFIRMED CASES OF CORRUPTION

UN GLOBAL SUSTAINABLE DEVELOPMENT GOALS



UN GLOBAL COMPACT PRINCIPLES:

PRINCIPLE 10. Businesses should work against corruption in all its forms, including extortion and bribery.

In its everyday operations, LSR Group complies with anti-corruption requirements established in the prevailing legislation of the Russian Federation and the generally accepted norms of international law. The Group is also working to develop its own unified internal standards and corporate code of conduct, as well as to prevent conflicts of interest and unlawful activity.

Some of LSR Group's key regulatory documents pertaining to countering corruption and fraud are:

- Directive from the CEO of LLC LSR on "Specific Measures for the Implementation of the Federal Law "On Countering Corruption"
- Bulletins from the Executive Director of LLC LSR
- Declaration of the Board of Directors on Countering Bribery
- Code of Ethics
- Regulation on Conflicts of Interest
- Principles for Countering Corruption

Data on risks associated with corruption are gathered and consolidated using modern, specialised information systems. The risk assessment procedure consists of several stages, which allows us to fully evaluate the potential negative consequences of these risks and improve the effectiveness of existing approaches to preventing corruption. Corruption risk assessments were carried out at 13 of the Group's Russian business units in 2018.

Anti-corruption issues at LSR Group are managed directly via planned measures aimed at preventing corrupt and other illegal activity. These are approved on an annual basis by the Group's management team and managers of its business units. At the end of the year, each business unit prepares a report on its activities and submits it to the Economic Security Directorate of the Managing Company for evaluation. No confirmed cases of corruption were identified within the Group in 2018.

A committed management team

One of the significant changes made in 2018 as part of the ongoing development of our principles of transparent and ethical business conduct, was an expansion of the scope of responsibilities and engagement of the Board of Directors' Audit Committee regarding informing employees about the importance of countering corruption, as well as the Group's zero-tolerance policy on corrupt activity (the above information was also communicated during visits by the Board of Directors to business units).

The key measures and tools that are used in the Group to counter corruption and corporate fraud include the following:

- Conduct regular meetings and preventive discussions with Group company managers and employees;
- Rotate employees who hold positions associated with a high risk of corruption;
- Ensure that price-setting processes are properly regulated, which helps to prevent abuse;
- Include anti-corruption clauses in employment contracts ;
- Conduct regular risk assessments of corruption;
- Operating the Trust hotline;

- Maintain a database for identifying and systematising information about potential conflicts of interest among employees.

Furthermore, in 2018, we updated our questionnaire on financial conflicts of interest, arranged for timely entry of information into our Conflicts of Interest database, and also confirmed a list of positions at LSR Group companies that are subject to restrictions on joint activity as established by our Regulation on Conflicts of Interest.

Trust hotline service

LSR Group operates the Trust hotline service, a tool for collecting and analysing information related to potential corruption or fraud, unethical conduct and other forms of abuse. The Trust hotline's contact number and email address (trust@lsrgroup.ru) can be found on the LSR Group website and in all open-access areas of the Group's companies. The hotline system allows callers either to speak personally with an operator or to leave an anonymous voicemail. Any individual may report a potential act of abuse to the service.

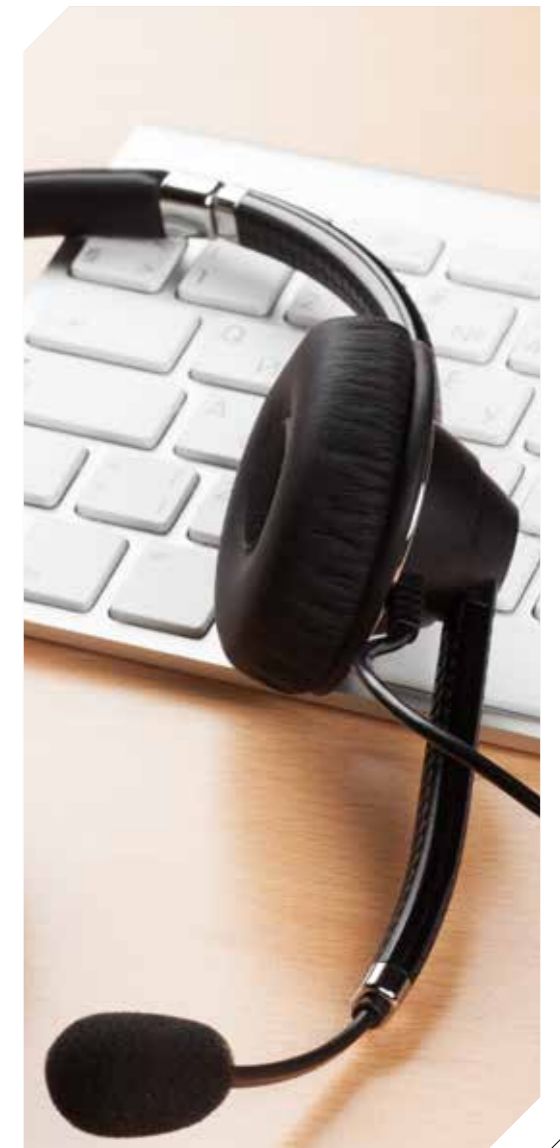
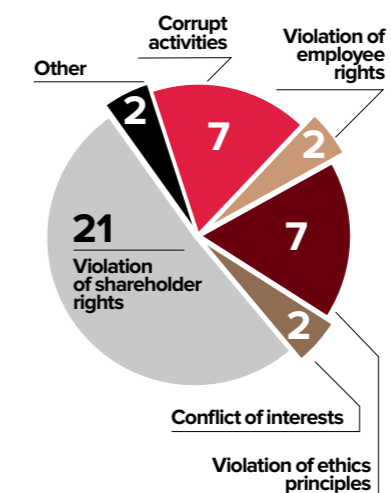
has reduced the time taken to categorise messages received and made it mandatory to reply to every message.

In 2018, the Trust hotline service received 41 messages, seven of which related to corruption. Following verification of the information provided, none of the reports of corrupt activity were confirmed. Neither were there any confirmed cases of violations of employee or customer rights during the reporting year.

In 2018, we continued to make improvements to how the hotline functions. Separate lines (or contact phone numbers) were introduced among all significant regions of presence enabling callers to report suspected or witnessed violations. This has enabled us to increase the number of calls received as potential callers are no longer concerned about long-distance charges.

The Economic Security Directorate of the Managing Company processes every message received and responds to everyone who contacts the service. A new approach to processing messages was implemented during the reporting year. This

NUMBER OF MESSAGES RECEIVED BY THE TRUST HOTLINE SERVICE IN 2018





Significant changes were introduced to our procurement system in the reporting year aimed at making the process more transparent and cultivating fair competition.

Our anti-corruption activities also covers our work with contractors. Significant changes were introduced to our procurement system in the reporting year aimed at making the process more transparent and cultivating fair competition. More detailed information about innovations and measures implemented in 2018 can be found in the 'Procurement activity' section of this Report.

LSR Group is focused on fostering a culture of zero tolerance regarding corruption and unethical conduct among the Group's employees. In 2018, we continued raising awareness of LSR Group's existing anti-corruption policies and methods among all employees, including new hires. Furthermore,

PROVISION OF INFORMATION ON ANTI-CORRUPTION POLICIES AND MEASURES

Informing stakeholders about existing anti-corruption policies and measures at LSR Group	People
Total number of representatives of key corporate governance bodies (the Board of Directors, the Executive Committee) informed	11
Total number of employees informed	10,796
Total number of business partners (contractors) informed	4,135

during the reporting year, two Group specialists completed special training courses on anti-corruption tools.

It is equally important that our contractors and partners are kept informed about anti-corruption issues. These issues were communicated to a total of 4,135 of the Group's

contractors and business partners in 2018, an 18 percent increase compared to previous year. In addition we introduced anti-corruption clauses in all standard contracts and agreements to be signed by the Group and its contractors.

For the purposes of information and prevention, the Economic Security Directorate organises and holds a number of anti-corruption events every year:

- Periodic information and educational meetings with employees aimed at explaining the Group's zero-tolerance policy towards corruption in any form, and informing attendants about any changes or innovations in this area;
- Internal conferences which are compulsory for all members of the Economic Security Directorate, where attendees discuss problematic issues and innovations, while Directorate

employees and external experts present their reports. Thus, in 2018, presentations were delivered by representatives from Interfax Group, the Russian Federal Tax Service, a specialist researcher in psychophysiology and others;

- Open lectures delivered by the staff of the Directorate to students of the Economic Security Department of the Faculty of Economics at the RANEPA North-West Institute of Management.

The Economic Security Directorate of the Managing Company also coordinates the Association of Employees of Economic Security

and Anti-Corruption Organisations in the Construction Sector of the North-Western Federal District. The Group's short- and medium-term plans include continuing to work to cultivate a zero-tolerance culture on corruption, both among the Group's employees, contractors and other stakeholders.



Developing the regions of presence

The success of achieving the Group's strategic goals is directly linked to sustainable and dynamic growth in the regions where it operates, as well as to a positive sociocultural environment in the cities where the Group's projects and production take place. Therefore, we devote particular attention to improving the social climate in these regions and cultivating the growth potential of local economies.

KEY FIGURES FOR 2018

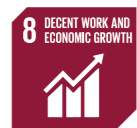
AMOUNT INVESTED IN SOCIAL AND CHARITABLE PROJECTS AND THE CONSTRUCTION OF SOCIAL INFRASTRUCTURE

RUB **670** MILLION

ORPHANED CHILDREN PLACED WITH FAMILIES THROUGH THE GROUP'S COLLABORATION WITH THE CHILDREN ARE WAITING CHARITABLE FOUNDATION

>330

UN GLOBAL SUSTAINABLE DEVELOPMENT GOALS



Our contribution to regional socioeconomic development

LSR Group recognises the nature and extent of the impact of its activities on the socioeconomic development of the regions in which it operates. Our daily activities directly contribute to creating a solid foundation for the development of modern society, including a strong economy, a high level of employment and a positive social and cultural environment.

LSR Group's contribution to regional socioeconomic development is realized in the following ways:

- Helping to increase employment in regions where the Group operates
- Boosting regional budget revenues by fulfilling tax and other obligations
- Encouraging investments and revitalising other sectors of the economy
- Helping to improve people's quality of life by building comfortable and affordable housing
- Supporting social and charitable projects
- Investing in the development of social infrastructure and landscaping in cities where the Group operates

Building social infrastructure

For the last 25 years, LSR Group has supported the development of the regions where it has operations by building nurseries and schools – facilities which are integral to the creation of community infrastructure in almost all of the Group's projects. The Group has delivered around 20 social infrastructure facilities over the last few years.

In 2018 alone, LSR Group built three social infrastructure facilities on the grounds of its residential buildings. The Group completed work on a nursery school for 12 classrooms in the Civilisation residential complex in the Nevsky District of St. Petersburg, creating spaces for 220 young school students in total. As part of the Zvezdny Duet project in the Moskovsky District of the city, the Group delivered two kindergartens, each of which provides space for 140 children and eight age groups.

LSR GROUP IS CURRENTLY ENGAGED IN BUILDING FURTHER SCHOOLS AND NURSERIES, WITH THE FOLLOWING PROJECTS MERITING SPECIAL ATTENTION:

1. **St. Petersburg:** construction of a school for 1,650 students at the Civilisation residential complex. In addition to classrooms, the school will have two swimming pools, two sports halls, areas for creative activity, workshops, a dance studio, a first aid room and a 600-seat assembly hall.
2. **Yekaterinburg:** construction of an education centre on the grounds of the Meridian residential complex which will combine a 200-place nursery and an 825-place school under one roof. This unique social facility will include sports facilities, including gym, physical rehabilitation area and two swimming pools, an assembly hall and a medical facility, including a first aid room, a dentist's office and rooms for medical procedures and vaccinations.
3. **Moscow:** plans for the Luchi residential complex include four nurseries and two schools. At the low-rise Nakhabino Yasnoe residential complex, LSR Group has built a municipal nursery with a swimming pool for 185 children.



The main sales market for the Group's products is the housing market, a market of particular social significance. The ability of the population to access affordable and comfortable housing impacts on the quality of life, demographic situation and workforce potential of all regions.

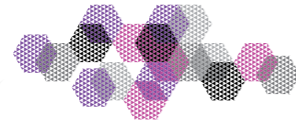
The construction sector also plays an important role in the economic regional development. As the presence of Group companies grows, it helps to increase employment, boost regional budget revenues and revitalise many other sectors of the economy. In addition, banking and insurance services related to housing construction are also expanding, as well

as regional infrastructure, including transportation, communications and education infrastructure.

Alongside the contribution they make as major employers and taxpayers, LSR Group companies are also actively engaged in resolving priority issues affecting the development of the regions of their operations. We allocate funds to support social and charitable programmes, help to make regions more aesthetically appealing, as well as build and renovate important social facilities.

In 2018, LSR Group invested a total of RUB 670 million in social and charitable projects and construction of public infrastructure.





Approach to charity

Implementing charitable projects is a significant part of our social activity. Every year, LSR Group participates actively in projects aimed at improving the social environment and quality of life for socially vulnerable groups in St. Petersburg and the Leningrad Region, Moscow and the Moscow Region, and Yekaterinburg.

Our choice and development of charitable projects are based on the strategic priorities of our core activities and the values of our corporate culture.

LSR Group's charitable activities policy is based on the following key principles:

- Focus on our activities
- Achieving results
- Systematic operations

LSR Group's social activities and charitable projects are centralised at the corporate level. We prepare a detailed annual report on the outcomes achieved by our charitable programmes, which is submitted to the Group CEO. Active operational

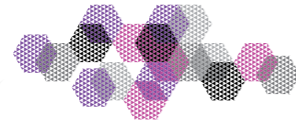
support is provided by LSR Group's Human Resources Directorate and Information Policy and Corporate Communications Directorate.

LSR Group's main areas of charitable activity are as follows:

1. Caring for children, including:
 - orphans and children deprived of parental care
 - children with disabilities
 - children with serious illnesses
2. Supporting socially vulnerable citizens, including:
 - disadvantaged families
 - single mothers
 - adults with disabilities
3. Revitalising and preserving Russia's cultural heritage, including:
 - providing support for the renovation of monuments of architectural importance
 - providing support for cultural events

The first two of the above areas are closely related and the majority of our projects aim to provide integrated assistance both for children and foster families. By providing assistance to vulnerable citizens – disadvantaged families or single mothers, for instance – we are helping to support children in need. Although our work in supporting children is primarily aimed at children and their families in difficult circumstances, all children and adolescents in the regions of our presence, including the children of our employees, benefit from many of our projects.





KEY PROJECTS AND OUTCOMES

Caring for children and supporting socially vulnerable citizens

LSR Group works with non-profit organisations, providing them with consultancy services and organising joint charitable projects. We provide both financial and non-financial support for projects, including donations of construction materials where required or by building turnkey premises.

Supporting the activity of the League of Public Associations of Parents of Children with Disabilities (GAOORDI)

- The Help for Children in the Leningrad Region programme to support treatment and rehabilitation of children with disabilities
- The Supporting Group Day Centres for Young People with Developmental Disabilities programme
- The assisted living home for people with intellectual and physical developmental disorders in the Novaya Okhta residential complex
- Organising creative, entertaining and training events

Collaboration with the Children Are Waiting charitable foundation

- Arranging assistance with updating and repopulating the databases of adoption service portals and websites
- Opening the Family Adaptation Centre, providing comprehensive support to foster families at all stages of the fostering process
- The Nursing Care project to support orphaned children in medical treatment and prevention facilities
- The Mother's Here project to support single women with young children in difficult life situations
- Photo shoots for children awaiting adoption and the Your View photography studio

Collaboration with the Parents' Bridge charitable foundation

- The Angels with Broken Wings programme to support families hoping to adopt children deprived of parental care, including children with disabilities
- Opening of the House of Hope temporary accommodation facility for pregnant women and mothers with children aged three and under, in difficult life situations

Supporting the creation of inclusive children's art centres

- The Dobrotorium children's art centre in the Moscow region
- The Arteriya collaborative art centre in St. Petersburg
- The Development collaborative children's art centre in Yekaterinburg

Collaboration with the Russian State Specialised Academy of Arts (RGSAl)

- Providing people with disabilities with an access to a fully-fledged higher arts education

Supporting GAOORDI

Since 2012, LSR Group has supported a number of programmes run by the League of Public Associations of Parents of Children with Disabilities (GAOORDI) aimed at helping people with disabilities live independently in society.

The key programmes and events supported as part of this collaboration are as follows:

- 1.** The Help for Children in the Leningrad Region programme. This programme provides charitable assistance to children with disabilities in need of treatment, rehabilitation, medicines and physiotherapy equipment.
- 2.** The Supporting Group Day Centres for Young People with Developmental Disabilities programme. Every day, 25 young people aged 18 and over with disabilities visit a Group Day Centre. The centre's programmes focus on developing communication skills, independence and social adaptation for everyday life.
- 3.** The assisted living home for people with intellectual and physical developmental disorders in the Novaya Okhta residential complex. This unique project aims to provide supported accommodation that can offer an

alternative to care homes for those with developmental disorders.

The assisted living home was opened in 2017, and soon became a first-class example of a successful collaboration between business, the non-profit sector and the state. Today, the home is fully occupied with 19 residents of different age groups, providing them with 24-hour support.

The assisted living home: sharing experience and plans for the future

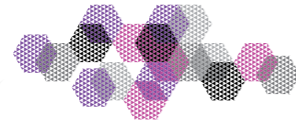
The assisted living home is a unique project, which is why specialists from non-profit organisations, representatives of the government bodies, and parents of young people with disabilities across Russia and from abroad are visiting it to learn about St. Petersburg's experience in setting up and running the assisted living system. The home was visited by guests from 32 of Russia's regions in 2018. The assisted living home in Novaya Okhta also welcomed delegations of international colleagues from Finland, Sweden, the USA, Norway and Kazakhstan for tours and

seminars on the assisted living project. In May 2018, the Novaya Okhta assisted living home was visited by Maxim Topilin, Minister of Labour and Social Protection of the Russian Federation, where he learned about the project and the work done by its specialists, as well as expressed an interest in rolling it out across other regions of Russia. It is our hope that this project will help to transform relationships between society and people with developmental disorders. LSR Group plans to build another assisted living home in St. Petersburg in the medium term.



- 4.** Creative events and entertainment are an integral part of GAOORDI's regular activities. LSR Group helps to organise various festivals, concerts and arts master classes for people with disabilities. One of the key events is the annual Art Thanksgiving Day festival of people with disabilities. In 2018, the festival was attended by approximately 900 participants, including caretakers and representatives of regional social rehabilitation centres, social institutions and public organisations, as well as families of young people with disabilities and volunteers.

On New Year's Eve, GAOORDI also holds its traditional Family New Year Celebrations for children with disabilities and their families. In addition, GAOORDI conducts training seminars for all specialists and volunteers who help to organise the celebrations.



Collaboration with the Children Are Waiting charitable foundation

We have supported the work of the Children Are Waiting charitable foundation since 2010, providing them with organisational assistance and advice, as well as running joint projects.

The key objectives of our collaboration are:

- Helping orphaned children to find families
- Consulting future foster parents
- Providing psychological support and comprehensive assistance to foster families.

In 2018, the Group continued to work alongside the Children Are Waiting charitable foundation to update and repopulate the databases of adoption portals and websites launched since 2008. LSR Group helps to systematize and regularly update information about orphanages and children living in them. In 2018, more than 330 children found their loving parents, bringing the total number to 3,269 since the launch of the project.

Opening the Family Adaptation Centre

In May 2018, the first Family Adaptation Centre in Russia was opened with the support of LSR Group. The centre aims to prepare families to foster a child from an orphanage, provide them

with comprehensive support in order to prevent crisis situations that could lead to the rejection of foster children. The centre has the capacity to prepare 250 potential foster families and provide

comprehensive assistance to 400 foster families every year. The opening of the Family Adaptation Centre is a huge step forward in efforts to bring children and foster families together. Foster

families often depend on the support of trained specialists provided by the centre to successfully navigate all of the difficulties and crises that can arise after bringing a child into their home.

In addition to supporting the core activities of the charitable fund, we also assist with the implementation of several specific projects:

1. The Nursing Care project aimed at providing a comprehensive support to orphaned children in various medical treatment and prevention facilities in St.

Petersburg. The project helps more than 1,000 orphaned children in hospitals every year.

2. The Mother's Here project supports single women in difficult life situations who are former residents of orphanages themselves and have young children. LSR Group provides these mothers with housing during difficult times, together with psychological support and advice. In 2018, the Group provided housing for seven families: seven mothers and eight children.

3. Children's photography sessions for adoption service portals and the Your View photography studio. This initiative runs photo sessions for children, producing images that can be placed on specialised portals, as well as teaching them photography. In 2018, photographers and interviewers from the project made a total of 165 trips to institutions. A total of 1,691 profiles featuring photos and information about children were produced.



Collaboration with the Parents' Bridge charitable foundation

LSR Group began providing assistance to the Parent's Bridge charitable foundation in 2004. Specialists from the foundation help to bring children deprived of parental care together with new families. This collaboration is one of our longest-running projects and one of the most effective of our charitable activities.

Together with the foundation, we have developed and now run a programme to support and guide families hoping to foster children deprived of parental care, including children with disabilities. It is for this reason that the programme has been given the name 'Angels with Broken Wings'. LSR Group provides financial support to adopted children and children in care, as well as helps families to get the required assistance of psychologists and social workers specialists.

In 2018, the programme supported by LSR Group achieved the following results:

- Comprehensive professional assistance was arranged for 125 families raising 148 adopted children
- Three training courses for foster parents were provided, following which 15 families (20 people) received a positive assessment
- 82 children received financial support
- 20 orphaned children and children deprived of parental care found foster families
- 99 families (139 people) contacted the foundation to undergo a preparation for the adoption
- 6 adjustment training sessions were held for 63 families (89 people)

Furthermore, 12 therapy group sessions for children and adoptive parents were held in 2018, and an inclusive family rehabilitation camp was arranged in Anapa together with a rehabilitation camp on the island of Solovki.

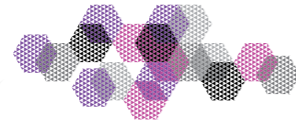


Opening of the House of Hope

2018 saw the opening of the House of Hope: a facility where pregnant women and mothers with children under three can take temporary refuge during difficult times.

The goal of the project is to assist families in difficult life situations, providing resources that enable them to work through a crisis and learn how to manage many life challenges

independently. In 2018, 12 women with children and two pregnant women received support and the opportunity to stay temporarily in the House of Hope.



Inclusive children's art centres

Dobrotorium in Moscow
The Dobrotorium children's art centre has been operating in the city of Odintsovo since May 2016. It welcomes children with disabilities, as well as children who simply need care and interaction. Young

students can choose between painting, drawing, composition, sculpture, art history, a poetry club, robotics, modelling, working in art and theatre studios, and many others.

Arteriya in St. Petersburg
The Arteriya collaborative art centre helping children with disabilities to socialise and introduce them to new friends, was opened with the support of LSR Group in 2013. Kids with disabilities visit the centre alongside children without disabilities. The centre's specialists lead exercises with children to assist their general development, provide them with training in a variety of skills, and issue them with certificates when they complete

a course. Approximately 130 children are presently attending the centre to draw, learn English and participate in its literature and theatre clubs, and other creative groups.

In 2018, creative groups from the centre visited another LSR Group art centre, the Development centre, in Yekaterinburg. The children from these two centres got to know each other and prepared the performance of The Frog Princess. In the beginning of 2018, a short film Childhood was produced telling the story of children in the besieged Leningrad during World War II who helped their country and each other in extremely difficult times. The film received international acclaim at the Luciana Film Festival in Italy.



Development centre in Yekaterinburg

The charitable children's collaborative art centre Development was opened by LSR Group in May 2017. The aim is to help children develop an awareness of their talents and abilities, as well as to provide them with psychological and educational support and guidance in choosing their careers.

Today, the Development centre is fully fitted out with modern equipment and staffed with creative development specialists, a speech therapist, a psychologist and a neuropsychologist. The centre is helping more than 320 children and teenagers with developmental disorders, as well as children from disadvantaged families, to socialize. The centre also regularly holds holiday concerts, exhibitions, classes at the Parents' Club and master classes.

In 2018, the centre continued its work, regularly organising both individual and studio classes for children, including the following: visual arts and painting with plasticine, sand drawing, exercise therapy, theatre and music classes, 3D graphics, and many more. Educational meetings were held for colleagues and other interested individuals who work with inclusive children's groups or engage with issues surrounding them.

In November 2018, parents and specialists participated in the Regional Parents' Forum 'Children with Disabilities in the Educational Environment, Realisation of opportunities', which took place in the Yeltsin Centre. November also saw the gala opening of the international Inclusion Art festival



with more than 280 attendees from across Russia and abroad. The youngest participants in the festival were the Peremenka (Break Time) vocal ensemble from

our centre, who were awarded the Laureate's diploma (second degree) in the choral vocals category and a diploma (third degree) in the pop vocals category.

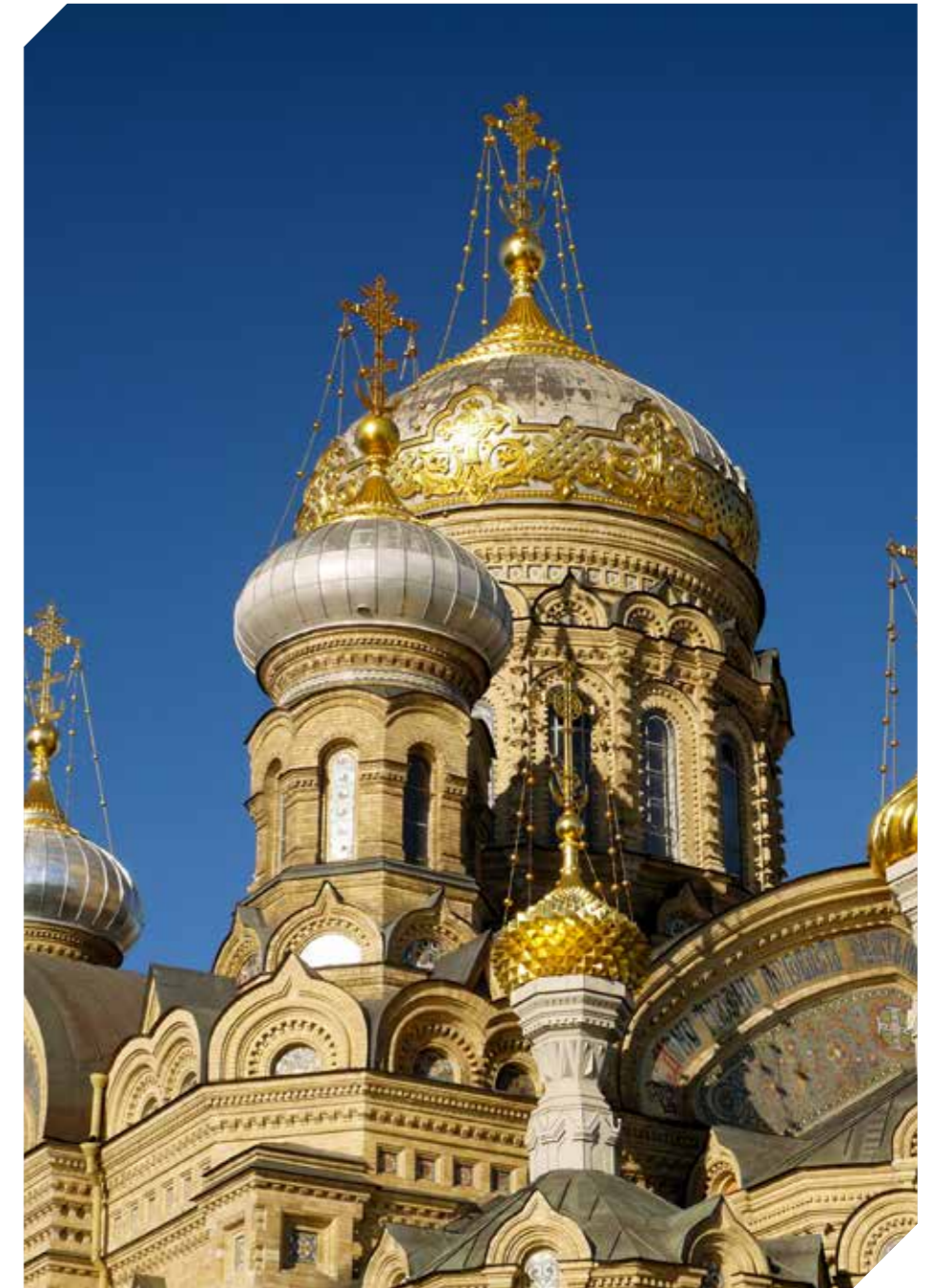
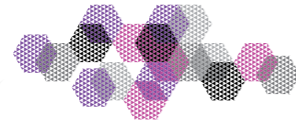
Russian State Specialised Academy of the Arts

Since 2018, LSR Group has been a partner of the Russian State Specialised Academy of the Arts (RGSAA), the world's only educational institution giving people with disabilities the opportunity to obtain a fully-fledged

arts higher education. The partnership was a logical step in the development of our corporate social responsibility programme, one of the key goals of which is to support the most socially vulnerable groups in society, and in

particular, children with developmental disorders. It gives talented young men and women with disabilities, some of whom have attended inclusive children's centres supported by LSR Group, the opportunity to achieve bachelor's,

master's and postgraduate degrees in such subjects as music, painting and theatre. Students and graduates of RGSAA have won prizes and certificates in numerous Russian and international competitions and student art reviews.



Revitalising and preserving Russia's cultural heritage

Preserving architectural monuments

For many years, LSR Group has taken an active role in projects which aim to develop Russian culture and preserve the nation's historical and artistic treasures. In 2018, the Group continued to support the renovation of architectural monuments. The Group has allocated essential construction materials to and helped to fund, artistic, finishing and technical work.

Especially noteworthy is our contribution to the renovation and support of the following sites:

- Arkhangelskoye Estate Museum
- Keramarkh Museum of Architectural Ceramics
- Bogoroditsky Zhitenny Monastery (Ostashkov)
- Courtyard at Optina Pustyn
- Gosudarev Feodorovsky Cathedral (Pushkin)
- Church of the Holy Apostle Andrew the First-Called
- Church of the Tikhvin Icon of the Mother of God

Thanks to the assistance of LSR Group, the Charitable Fund for the Preservation of the Spiritual Heritage of Venerable Sergius of Radonezh is now implementing a wide range of projects. One example is a series of measures to restore the buildings of the Moscow Theological Academy in the Trinity Lavra of St. Sergius and the church in the Abramtsevo Estate complex.

Supporting cultural projects

LSR Group also focuses on the development of contemporary arts and the support of cultural projects. Thus, the Group is directly involved in the wide range of regular cultural events held at ZILART Hall.

LSR Group also makes a significant contribution to new educational projects. Major recipients of LSR Group support in 2018 included:

- Moscow State University of Civil Engineering (creation of a faculty club)
- The Space Research Institute of the Russian Academy of Sciences (a scientific conference "Space: 60 Years on the Road to Discovery")
- The Kolyada Theatre (Festival of Contemporary Drama in the Urals)

LSR Group also regularly helps to fund concerts for socially vulnerable groups and people with disabilities. The concerts are attended by young people from children's care homes and residential schools, children from disadvantaged families and students from children's music schools. Concerts organised with the support of LSR Group have on several occasions been recognised the most interesting and educational children's projects in Russia's cultural capital.





Protecting the environment

LSR Group operates in several regions of Russia in varying environmental conditions and is aware of the importance of preserving the environmental wellbeing of these regions. Our key priorities for the environmental protection are to minimise negative impact and restore ecosystems damaged in the course of industrial operations.

KEY FIGURES FOR 2018

0

ACCIDENTS WITH ENVIRONMENTAL IMPACT

24%

REDUCTION IN ELECTRICITY CONSUMPTION

23%

REDUCTION IN PETROL CONSUMPTION

UN GLOBAL SUSTAINABLE DEVELOPMENT GOALS



UN GLOBAL COMPACT PRINCIPLES:

PRINCIPLE 7. Businesses should support a precautionary approach to environmental challenges.

PRINCIPLE 8. Businesses should undertake initiatives to promote greater environmental responsibility.

PRINCIPLE 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.



Environmental management approach

Environmental management at LSR Group is founded on strict compliance with the requirements of the environmental legislation and the implementation of additional measures aimed at reducing environmental risks.

In order to meet these objectives, the Group's business units draw up schedules of environmental protection measures on an annual basis with fund allocations to support the implementation. All Group companies have permissions required

for their respective operations. All necessary licences for licenced activities have been obtained.

One of the most important aspects of the Group's operations is its use of the latest and most environmentally friendly technology. This is especially important when we develop our investment programmes - energy efficiency and environmental safety are considered together with cost and productivity factors when acquiring a new piece of equipment.

The environmental protection activities of our business units are governed by regulations for subdivisions responsible for environmental management and by other internal regulatory documents which define the management procedures for particular aspects of environmental protection activity. These include instructions for handling waste at production sites, regulations for monitoring production subdivisions for compliance with environmental legislation, etc.

Compliance with environmental legislation and development of environmental protection measures

To ensure that LSR Group companies comply with all regulatory requirements, the Group constantly monitors changes in the legislation on environmental protection measures and considers any change

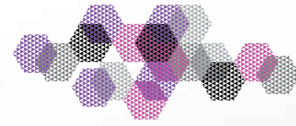
introduced, as well as implements a broad range of monitoring measures. The Group's environmental protection specialists formulate new environmental goals and objectives for our operations in

accordance with these changes. Provision for additional funding is made when required. Specialists from our companies' legal teams are also called upon to clarify complex environmental legislation issues.

KEY SETS OF MEASURES APPLIED TO ENSURE COMPLIANCE WITH THE LEGISLATIVE REQUIREMENTS INCLUDE THE FOLLOWING:

- Developing draft environmental protection documentation and obtaining the relevant licences in a timely manner;
- Implementing all the necessary industrial environmental monitoring procedures, including monitoring the operation of environmental treatment facilities;
- Regularly training responsible individuals, organising and attending topical workshops and lectures;
- Making continuous use of information resources and systems, including online legal databases.
- Complying with the permissible volumes of emissions, effluents, waste creation and storage established for our companies;
- Monitoring the condition of temporary waste accumulation areas and other areas;
- Providing environmental protection specialists with the necessary materials, literature and journals;
- Internal environmental checks are conducted at Group companies on a regular basis alongside the supervisory bodies' reviews, providing objective assessment of the compliance of the Group operations with the existing regulations.





As each Group business unit engages in a different type of production, all units have their own structural subdivision responsible for environmental protection issues or have introduced new positions to oversee environmental management.

The Group's approach to environmental management is described later in this section in terms of the various types of impact it creates due to the nature of its business. The information included about these impacts and methods for managing them addresses the activity of the Group's own production and construction sites. In the Group's other business

segment – real estate – LSR works with contractor organisations who carry out construction and installation work and who bear responsibility for environmental impact and other factors.

The quantitative environmental protection data provided below refers to the Building Materials business segment (with the exception of information on energy consumption and energy efficiency, which refers to the Group as a whole). The activities of Group companies within the Building Materials segment create the most significant impact on the environment due to the nature of the industrial and technological processes involved.

During the reporting year, a total of RUB 23.7 million was invested in environmental protection measures, including monitoring and preventive measures, in the Building Materials segment.

In 2018, a total of 22 external checks for compliance with environmental protection legislation were conducted at Group companies active in this segment. Following assessment done by supervisory bodies, two orders and fines were issued for the amount of RUB 849,000. All orders were addressed in a timely fashion and the issues were rectified. No accidents with environmental impact were recorded during 2018.

Environmental management and development projects

When preparing and implementing new projects, LSR Group's real estate companies conduct assessments of the potential environmental impact of these projects by carrying out environmental research and developing high-quality project documentation. The necessary licences are then obtained and construction work is carried out in compliance with the requirements of environmental legislation and the project documentation.

Step 1. Conducting environmental research

Engineering and environmental studies are carried out at future construction sites with the principal objective of comprehensively investigating aspects of the surrounding natural environment, together with anthropogenic and socioeconomic conditions in the district where the planned site is located. One important element of these studies is a soil investigation and determination of waste hazard classes (contaminated soil and subsoil). The studies also include a forecast of potential unfavourable changes to elements of the environment and recommendations for implementing environmental protection measures during construction and subsequent use of the planned site.

Step 2. Developing project documentation

During the subsequent planning process, a number of documents are developed which include plans for organising construction work, working plans and draft standards for waste generation and storage limits (or technical regulations for the handling of construction waste). The purpose of these documents is to communicate concrete decisions determining technical resources and working methods and measures which ensure compliance with environmental and hygiene standards.

Step 3. Obtaining the required licences

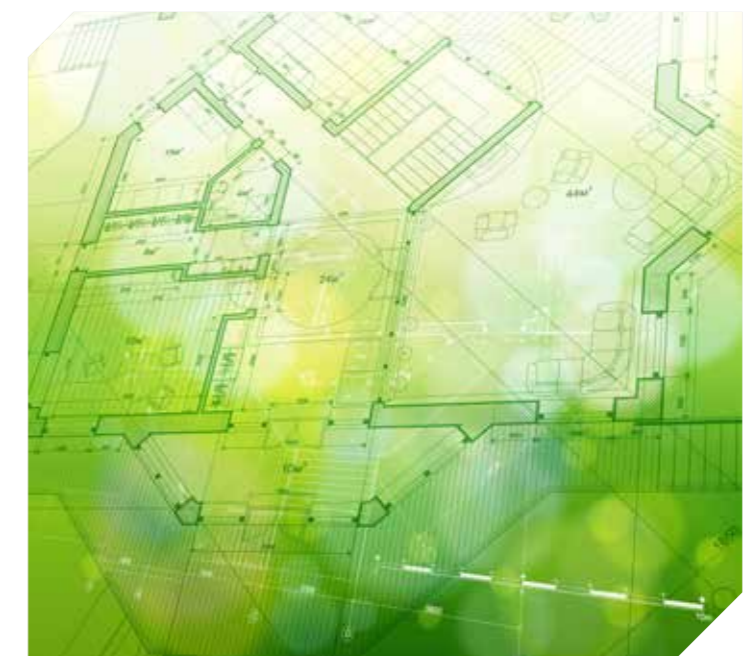
Once the necessary research has been conducted and the aforementioned documents have been developed, applications are made to the relevant government bodies for the required licences to begin construction work, including licences for the movement of subsoils and waste. This stage of the process is most often completed by the general contracting company hired to carry out the construction work.

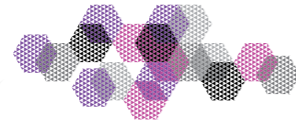
Step 4. Carrying out construction work and monitoring compliance with requirements

General contractors working at a Group construction site are obliged to comply with the requirements established in legislation and the project documentation with respect to handling waste, treatment of natural resources, prevention of air pollution, and public health and hygiene. Where necessary, the general contractor will conclude agreements with third parties, such as organisations licenced to transport and store waste.

The general contractor's obligations are set out in full in these agreements. A standard template general contractor agreement was developed in 2018. This incorporates our Regulations for Cooperation between Parties on Safe Working Practices and Parties' Rights, Obligations and Responsibilities with respect to the Violation of Obligations. Attached to these regulations is a list of fines applicable for violating safety, environmental and sanitary standards.

LSR Group companies which hire contractors to carry out construction work retain the right to monitor contractor compliance with environmental requirements and to take appropriate action in the event of violations.





Energy consumption and energy efficiency

The Group devotes significant attention to monitoring its use of energy resources and improving energy efficiency. These issues are managed by energy specialists or engineer teams in Group companies.

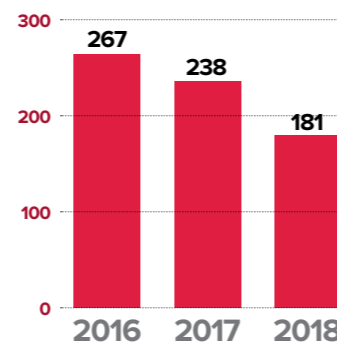
Implementing energy-efficient technologies is important both for making effective use of renewable energy resources, as well as for managing climate risks. The generation and consumption of energy derived from fossil fuels is one of the main sources of atmospheric emissions of greenhouse gases. Therefore, LSR

Group is committed to optimise its production processes with the aim of reducing its electricity consumption and review opportunities to use alternative energy sources.

The main types of fuels employed in the Group are petrol and diesel fuel, which are used for transportation by road and sea. Some of the Group's enterprises have their own boiler plants which use small quantities of natural gas and fuel oil to generate thermal energy. This energy is used in production processes in the form of steam or hot water and provide heating and hot water to Group companies and residential districts. Diesel power plants are also installed at some sites to ensure a reserve of electricity during planned and unplanned repairs and construction work.

Since 2015, we have observed a steady downward trend in our petrol consumption, which is largely due to work carried out to optimise both our vehicle fleet and our transport routes. In 2018, the amount of petrol that we used fell by more than 23

TOTAL GROUP ELECTRICITY CONSUMPTION FOR 2016–2018, MILLION KWH

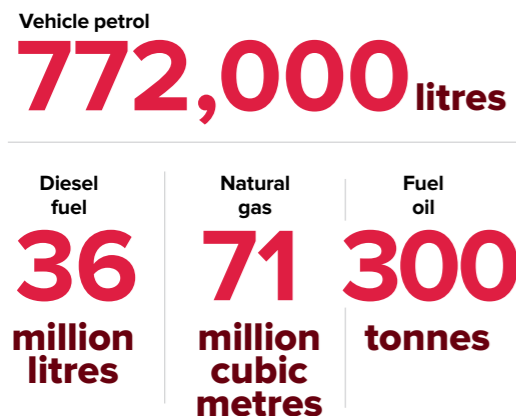


percent in comparison with 2017. The majority of our electricity comes from central power grids. The Group's companies regularly record, monitor and analyse their energy consumption. In 2018, our energy consumption fell by 24 percent in comparison with 2017 and amounted to 181 million kWh; this was partially due to the sale of some of our production companies in 2018. Group companies are also gradually implementing energy-saving light sources and optimising energy distribution.

GROUP ELECTRICITY AND THERMAL ENERGY CONSUMPTION IN 2018

Energy type	Unit	2016	2017	2018
Electricity	million kWh	267	238	181
Thermal energy	thousand Gcal	58	71	36

TOTAL GROUP CONSUMPTION OF FUEL FROM NON-RENEWABLE SOURCES IN 2018 (BY FUEL TYPE)



Material resource management

One important goal for LSR Group is to monitor the quality of the material resources that it uses and to reduce the material intensity of production, while maintaining product quality. The Group's companies form a single production chain within which the finished products of one company are the material resources used by another. The key resources used by extractive companies are minerals extracted from subsoil plots: granites and granite gneisses (subsequently used in the production of gravel), as well as marine and quarry sands.

Group companies which produce building materials use the following key material resources as raw materials: sand, clay, crushed granite, cement and metal. Clay, granite, granite gneisses and sand are extracted from the Group's deposits, while cement and metal are purchased from external suppliers. Finished products (bricks, aerated concrete, premixed concrete, and reinforced concrete products) are, in turn, used in the next link of the production chain - the construction of buildings and installations. In 2018, consumption of many types of resources increased at Group companies within the Building Materials business segment. This was due to an increase in production volumes,

which, in turn, resulted from a growing demand for the Group's products. In order to meet demand, during the reporting period, we introduced new production capacity, increased utilisation of our existing capacity and leased new equipment.

The most significant increase was in the use of sand, consumption of which reached approximately 21 million tonnes in 2018, up 69 percent year-on-year. Consumption of crushed granite, cement, granites and granite gneisses also increased. At the same time, the quantities of clay and lime used fell by 11 percent and 34 percent, respectively.

The increase in the use of sand as a raw material was mainly due to significant growth in sales of sand as a finished product. It was also as the result of works conducted to improve (reclaim) plots of land for construction in the reporting year, mainly by raising the elevations and stabilising the surfaces of plots.

Group companies regularly take measures to reduce the material intensity of production. During the reporting year, a number of measures were taken to optimise production processes, improve the technical outfitting of companies, and seek out and develop new product compositions using safer and more effective additives.

CONSUMPTION OF KEY MATERIAL RESOURCES IN THE BUILDING MATERIALS BUSINESS SEGMENT, 2016–2018

Material type	Unit	2016	2017	2018
Granites and granite gneisses	thousand cubic metres	6,910	6,682	8,579
Sand	thousand tonnes	12,679	12,409	21,018
Crushed granite	thousand tonnes	851	1,060	1,150
Cement, including Portland cement	thousand tonnes	519	618	640
Clay	thousand tonnes	918	830	743
Metal	thousand tonnes	11	10	10
Lime	thousand tonnes	36	42	28
Gypsum stone	thousand tonnes	8	14	7
Aluminium powder	thousand tonnes	0.7	0.8	0.7
Plaster	thousand tonnes	18	20	22

Monitoring the quality of material resources used

We monitor the quality of materials in order to ensure that our finished products are of the highest quality and comply with current standards and regulatory requirements, and to reduce production costs.

1. Material resources that we extract
We monitor the quality of materials that we extract ourselves at the extraction site, by means of visually assessing individual section of the seam, and, where necessary, by further determining the source properties of rocks or studying the properties of new inclusions and by taking samples for laboratory analysis.

2. Material resources that we purchase
When we purchase raw materials for production purposes, a technical specification is created which specifies the required characteristics of the materials used. Once a supplier has been selected, an agreement is concluded with the full specifications for the goods. All raw materials delivered to Group companies undergo incoming inspections to ensure that they meet the requirements specified in the technical regulations and quality passports. Incoming inspections are conducted by employees at testing laboratories (using samples) and by quality assurance specialists at individual companies. Methodological instructions have been developed at Group companies for all types of incoming inspections and operational checks. In the event when a product does not comply with the requirements, a claim for replacement is made and the consignment of the product in question is removed from the production process and disposed of. We then either work together with a representative of the supplier to rectify the issues identified, or we discontinue our collaboration with the supplier.

Reusing materials

Some Group facilities employ recycled or reused waste materials to manufacture key products. These initiatives facilitate reduction of waste generated, while lowering the cost of production. Among such examples are production of dry brick and aerated concrete chips.



Reducing pressure on water resources

Group companies are committed to making the most effective use of water resources and minimising pressure on bodies of water by reducing water withdrawal, improving the quality and reducing the quantity of discharged effluents, and implementing measures to prevent and eliminate impact on the flora and fauna of bodies of water.

Water withdrawal

One important objective with respect to water usage is to reduce water withdrawal from natural sources. Plans for the multiple reuse of water during the production process have been implemented at several Group companies. At other companies, where the nature

of the production process does not allow for the repeated use or reuse of water supplies, the Group specialists are seeking out new technological solutions which will help to optimise water use.

The total water withdrawal by Group companies in the Building Materials business segment during the reporting period was 10,029,000* cubic metres, significantly more than in 2017. This is the result of the increased production volumes and the implementation of a project for the integrated development of land on St. Petersburg's Vasilyevsky Island.

Approximately 90 percent of all water resources used in production

operations are collected from surface water bodies, including Neva Bay in the Gulf of Finland. Around 9 percent is provided by municipal water supply systems.

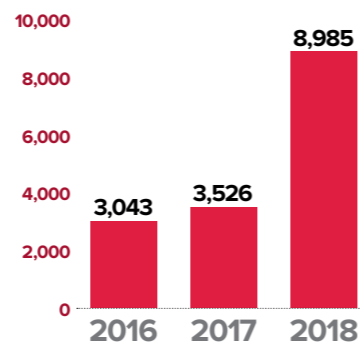
This high water withdrawal is the result of the hydrotransport of a significant amount of sand extracted from underwater deposits to waterside depots. Monitoring fisheries and minimising negative impact on the habitats of aquatic flora and fauna are also among the top priorities for the Group's environmental teams. Where impact is unavoidable, compensatory measures are implemented with the aim of restoring and further cultivating biological resources in water bodies.

VOLUME OF WATER WITHDRAWAL BY THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018, BY WITHDRAWAL SOURCE*

Source name	Withdrawal volume, thousand cubic metres	Proportion of total withdrawal, %
Water provided by organisations (municipal water supply systems)	900	9.0%
Groundwater	144	1.4%
Surface water, incl.	8,985	89.6%
River and lake water	21	0.2%
Sea and ocean water	8,964	89.4%
Total	10,029	100.0%

* Not including rainwater

WATER WITHDRAWAL FROM SURFACE SOURCES BY THE BUILDING MATERIALS BUSINESS SEGMENT IN 2016-2018, THOUSAND CUBIC METRES

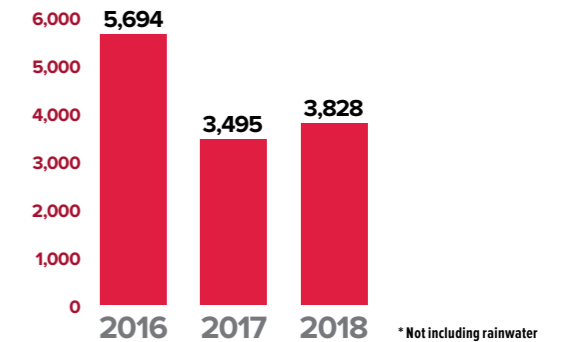


Preserving biodiversity in the Gulf of Finland

The Gulf of Finland is a site not only of national, but also of international importance. Industrial operations in its waters are therefore subject to special requirements set down in maritime legislation, including the provisions of the international Convention on the Protection of the Marine Environment of the Baltic Sea Area, signed in 1992. These special requirements include full cessation of operations of any kind during fish spawning periods and the obligation to rectify damage caused to water-based biological resources.

Specialists implement compensatory measures on a regular basis under the oversight of Russia's Federal Agency for Fishery and with the assistance of specialised aquaculture farms. Since 2012, more than 340,000 young trout, whitefish and brook trout have been released into the waters of the Gulf of Finland, together with approximately 2.6 million pikeperch larvae.

WASTEWATER DISCHARGE INTO SURFACE BODIES OF WATER BY THE BUILDING MATERIALS BUSINESS SEGMENT, 2016-2018 (THOUSAND CUBIC METRES)



Waste water

The Group is committed to ensuring that the quality and volume of discharged water complies with the established water body usage regulations. In order to achieve this objective, water protection plans are developed and put into action on a regular basis, while the condition of bodies of water is monitored and industrial inspections are carried out at discharge sites.

Waste water is discharged both into urban wastewater disposal systems in line with the agreements with sewage companies, and into surface bodies of water following the passage of the waste water through treatment facilities (on the basis of licences for the usage of bodies of water issued by government bodies). The key documents regulating the Group's activities in this area include draft standards for permissible discharges of substances into water bodies; standards for permissible discharges of substances and microorganisms into water bodies;

licences for the discharge of substances and microorganisms into water bodies; and declarations of the content and properties of waste water discharged into centralised networks.

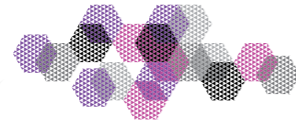
The Group pays special attention to wastewater treatment prior to its discharge into water bodies. Specialists monitor the operations of treatment facilities on a regular basis. In addition, specially accredited laboratories monitor the quality of waste water discharged into sewers and conduct performance evaluations of industrial and surface wastewater treatment facilities to determine potential ways of improving treatment processes.

A total of 4,248,000 cubic metres of waste water was discharged by Group companies in the Building Materials segment in 2018. More than 90 percent of the waste water discharged fell under the categories 'clean in accordance with standards' and 'treated in accordance with standards'.

WATER DISCHARGE VOLUMES IN THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018, BY DISCHARGE DESTINATION*

	Discharge volume, thousand cubic metres	Proportion of total discharge volume, %
Total for Company	4,248	100%
into surface bodies of water, including marshes, rivers and lakes	3,828	90%
into water bodies of third-party organisations (municipal wastewater systems)	420	10%





Impact on atmospheric air

The Group's companies strictly monitor compliance with the established pollutant emissions standards and implement emissions-cutting measures. Group production sites are equipped with modern treatment equipment. It is equally important that we strive to comply with air hygiene standards for populated areas.

Key types of activity which release emissions include:

- Operating construction vehicle engines
- Operating power and thermal energy generation facilities
- Transferring inert materials
- Operating production equipment

and various mechanisms (welding and gas welding, wood processing, crushing, cutting and processing various other materials)

- Operating transport vehicles
- Repairing and maintaining our own equipment, etc.

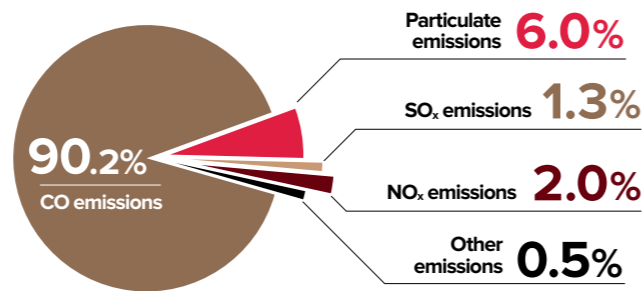
Key regulatory documents in this area include draft standards for permissible atmospheric pollutant emissions levels, which include a list of emitted pollutants as well as a detailed description of emissions sources and types of operations. Each Group company holds the required licences for atmospheric pollutant emissions as issued by government bodies.

Measures to ensure compliance with the established standards are carried out as part of individual companies' approved environmental protection programmes. The most important of these include environmental performance checks, performance checks on gas purification units and technical maintenance of these units, and laboratory tests on the air at the borders of companies' sanitary protection zones.

The absolute volume of emissions generated by the Building Materials business segment in 2018 was 21,870 tonnes, 90 percent of which was carbon monoxide (CO) emissions and 6 percent was particulate emissions.

There was a slight increase in emissions in the reporting year compared to 2017, due to an increase in production volumes, as well as the range of products produced.

PROPORTION OF DIFFERENT POLLUTANTS IN ATMOSPHERIC EMISSIONS PRODUCED BY THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018,%



ATMOSPHERIC EMISSIONS PRODUCED BY THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018, BY POLLUTANT

	Volume of emissions, tonnes	Share of total emissions, %
NO _x emissions	447	2.0%
SO _x emissions	285	1.3%
Particulate emissions	1,308	6.0%
CO emissions	19,723	90.2%
Other emissions	107	0.5%
Total	21,870	100.0%

Waste management

The Group is dedicated to minimising waste generation, and actively seeks out solutions that enable it to recycle different types of waste. Group companies regularly monitor their compliance with agreed waste generation standards and storage limits, as well as compliance with requirements for temporary waste accumulation areas.

The key sources of waste generation at Group companies include:

- maintenance of construction machinery and equipment
- maintenance of ships
- maintenance of vehicles
- repair work, including the replacement of units, parts, etc.
- metal processing
- replacement of consumable materials and protective clothing
- maintenance of treatment facilities
- construction material waste (waste concrete and brick, ferrous metal scrap, construction debris)
- subsoil wastes

Waste is collected and temporarily stored on the Company's sites in locations appropriately equipped for the hazard class of the waste, in accordance with the standards and requirements of hygiene and environmental protection legislation. Waste is transported to waste storage, decontamination, or disposal sites in line with the agreements with licenced organisations.

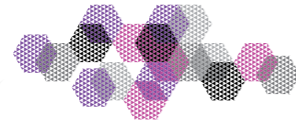
Draft waste generation standards and storage limits are developed for each production site; these standards and restrictions are then approved by government bodies that issue the relevant licensing documentation.

Reducing construction waste

Group companies use modern construction technology enabling them to make efficient use of building materials and minimise waste generation. During construction, appropriate measures are taken to minimise the amount of waste that requires storage at storage sites by maximising the use of building materials, including sand, cement and crushed granite.

The most important measures taken to reduce construction waste include:

- Reducing waste from industrial production by lowering the reject rate
- Reducing environmental damage caused by building prefabricated housing through achieving a high level of industrialisation of the structure manufacturing process and minimising construction times
- Monitoring material intensity indicators for planned buildings and optimising project solutions using tailored approaches



The total volume of waste generated by the Building Materials business segment in 2018 decrease to 4,933 tonnes. One of the factors contributing to this reduction was the reuse of certain types of waste as products. LSR Group companies are constantly analysing opportunities for making use of waste generated during the production process. For example,

certificates of conformity for used motor oil and rechargeable batteries are currently being issued, which allows them to be sold to consumers.

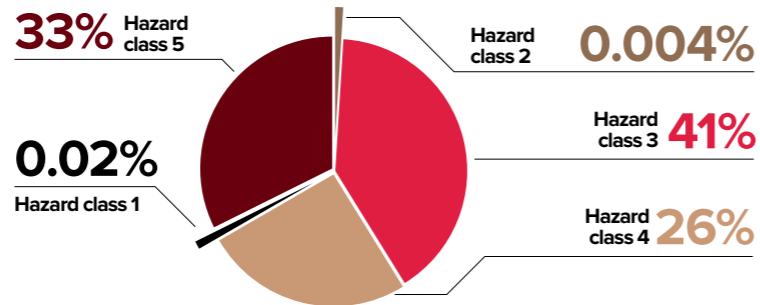
In terms of morphological structure, most of the waste generated at the Group's facilities in 2018 (approximately 41 percent) fell within hazard class 3 (moderately hazardous); the

volume of waste in this class in 2018 grew mainly due to increased production. A 26 percent of the waste generated fell within hazard class 4, representing a low hazard, and the remaining 33 percent fell within hazard class 5, representing no hazard to the environment. Almost no highly hazardous waste was produced by Group companies related to the Building Materials business segment.

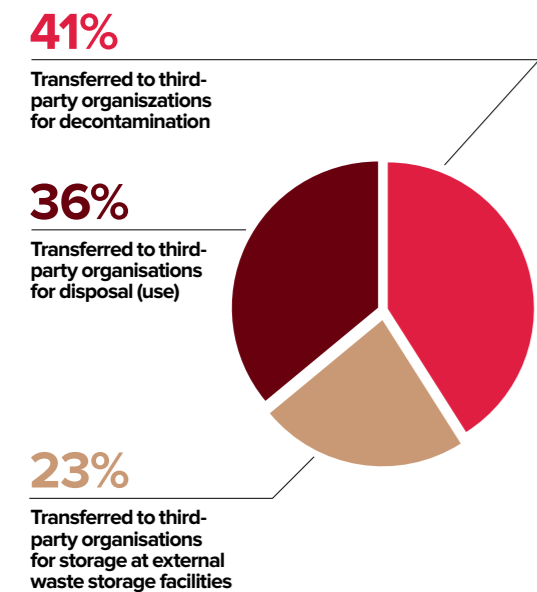
VOLUMES OF WASTE GENERATED BY THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018, BY WASTE CLASS

Indicator	Volume of waste generated, tonnes	Proportion of total waste, %
Hazard class 1	1	0.02%
Hazard class 2	0.2	0.004%
Hazard class 3	2,012	41%
Hazard class 4	1,279	26%
Hazard class 5	1,641	33%
Total	4,933	100%

WASTE GENERATED BY THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018, BY HAZARD CLASS, %



WASTE HANDLING METHODS EMPLOYED BY GROUP COMPANIES IN THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018



LSR Group is committed to achieving maximum efficiency in its handling of waste. Individual internal waste handling regulations have been developed at the Group's companies, and regular industrial environmental monitoring is set up to ensure that waste accumulation sites comply with hygiene and environmental protection standards. As the majority of waste generated falls within hazard class 3

(moderately hazardous), most of the waste transferred to third-party organisations (41 percent) is subject to decontamination. Disposals of hazard class 1 waste decreased in 2018 in comparison with 2017, mainly as a result of measures introduced by Group companies to gradually replace fluorescent lighting with LED lighting, which falls within hazard class 4 and does not contain hazardous substances or elements.

WASTE HANDLING METHODS EMPLOYED BY GROUP COMPANIES IN THE BUILDING MATERIALS BUSINESS SEGMENT IN 2018, BY HAZARD CLASS (TONNES)

	Total in 2018	Hazard class 1	Hazard class 2	Hazard class 3	Hazard class 4	Hazard class 5
Treatment of waste incl.:	4,933	1	0.2	2,012	1,279	1,641
Transferred to third-party organisations for decontamination	2,039	1	0.2	1,970	68	0
Transferred to third-party organisations for storage at external waste storage facilities	1,120	0	0	3	857	260
Transferred to third-party organisations for disposal (use)	1,774	0	0	39	354	1,381



Green building

Green building is a vital part of LSR Group's sustainable development activities, and an issue that is becoming increasingly important for real estate market participants these days. Buildings that minimise their environmental impact throughout their lifecycle and help to improve human health retain their value longer than buildings constructed without taking these issues into consideration.

Furthermore, sustainable construction helps to minimise climate-associated risks both for the Group and, more broadly, for our stakeholders. Global problems are a challenge for the construction and real estate sectors, and as one of the largest players in the market, we are conscious of our responsibility to solve them.

That is why LSR Group is committed to ensure that the real estate it builds and the products it produces meet the highest standards of environmental efficiency, safety and quality. At the same time, the concepts of sustainable and green building are far from being environmental

issues alone: in addition to reducing environmental impact, we also place greater focus on improving the quality and social aspects of life in our new buildings.

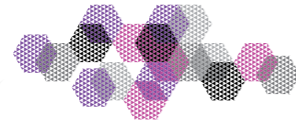
Key elements of sustainable and green construction at LSR Group include the following:

- constructing buildings that use energy-efficient and heat-saving technology;
- implementing technologies that enable water to be saved post-completion;
- implementing modern systems for separated waste collection and disposal;
- constructing buildings using environmentally safe construction materials;
- creating building microclimates that are comfortable and safe for inhabitants;
- using soundproofing technology within buildings;

- comprehensively landscaping and planting the areas around buildings;
- using building information modelling (BIM*) technology.

In 2018, LSR Group continued construction of its Neva Haus project, an environmentally friendly residential complex in St. Petersburg. The building concept includes the use of resource-saving and energy-efficient technology. The building's parking facilities will include charging stations for electric cars, a modern waste collection and disposal system has been developed, a closed thermal circuit will be used for heating, and water will be provided by a high-quality five-stage purification system. Neva Haus is the first residential complex in St. Petersburg that has passed the official certification confirming that it meets GREEN ZOOM standards for increased energy efficiency, water efficiency and environmental friendliness in residential properties. It has also been awarded a GREEN ZOOM Gold certificate.

* BIM technology enables a single model of the building to be created which includes all of the necessary information for all sections of the project and all stages of the building lifecycle, allowing management of building data in a more efficient manner



Smart windows in the ZILART residential complex

Work is underway on an initiative to equip homes in the ZILART residential complex with multifunctional windows which use several layers of a specially developed glass.

1. Energy efficiency is provided by tempered glass with magnetron coating. This sprayed layer improves the window's ability to transmit light, while preventing the heat to escape in winter, or for it to pass through during summer. This will enable residents to reduce their use of additional heat sources in winter and air conditioning in summer, thereby decreasing their electricity consumption.
2. The second smart layer of the window has a high reflectivity, offering privacy. Whereas normal windows have approximately 8 percent reflectivity, this figure is 14 percent in ZILART homes.
3. Yet another special layer helps to improve safety (fire resistance): it can withstand high temperatures for 15 minutes without damage. Additional protection is provided by fire-resistant glass interlayers between the panes.

The comfort-class Kaleidoscope project is another example of a green building project implemented by LSR Group. The complex was constructed using prefabricated house building technology with a 'seamless' energy-efficient facade insulation system. This allowed to increase heat retention in the buildings by 30 percent in comparison with traditional buildings made from prefabricated ferroconcrete, while significantly improving sound insulation and room microclimate.

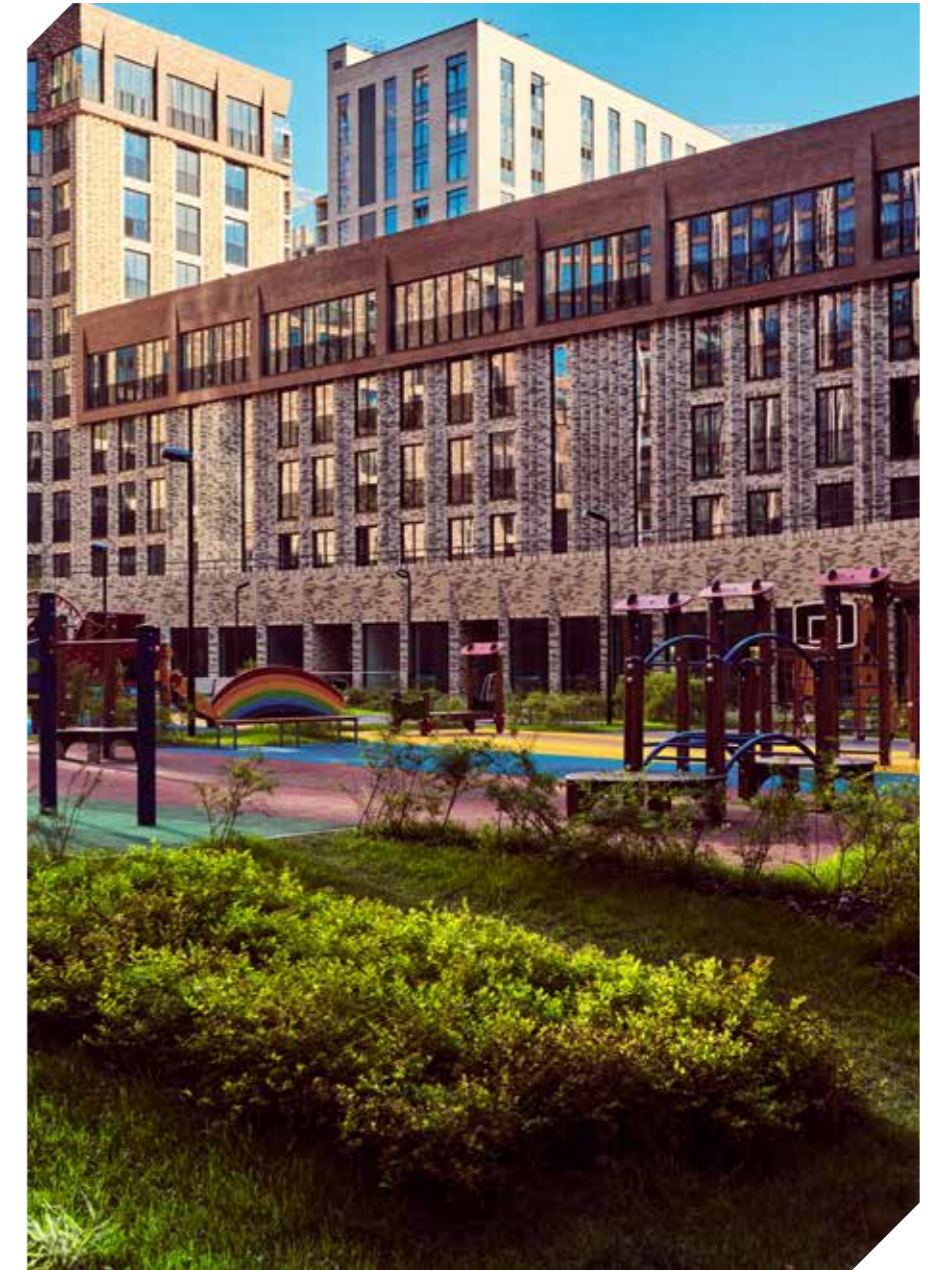
Another highly effective measure for reducing environmental impact is the use of environmentally safe construction materials. LSR Group devotes special attention to producing environmentally friendly building materials which are then used in the construction of our own residential complexes and sold to external customers. The aerated concrete and bricks that we produce have a range of important characteristics that make them safe for the environment and non-hazardous to human health during the operation of buildings and facilities constructed using these materials.



Producing and using environmentally friendly building materials

Aerated concrete
Our aerated concrete blocks are produced using naturally occurring raw materials: silica sand (approximately 60 percent), cement (approximately 20 percent), and lime (approximately 20 percent). The end product does not emit harmful substances. Aerated concrete is one of the least hazardous materials in terms of radionuclide content and does not pose a threat to human health. Furthermore, aerated concrete is not altered by the activity of microorganisms and is a non-combustible wall material. This means that our aerated concrete production process yields a wall material that is strong, environmentally friendly and a good insulator.

Bricks
We produce our bricks using a natural and environmentally friendly raw material - clay, which we extract from our own quarries. The finished product does not emit any substances harmful to humans during use, making it one of the best alternative building materials in terms of its environmental credentials. Furthermore, the porous structure of ceramic bricks enables air to pass through them, which improves their performance and also helps to create a more comfortable environment for residents.



An equally important area of sustainable construction for LSR Group is comprehensive landscaping of the areas surrounding buildings and creating a pleasant sociocultural environment. All Group projects take these aspects into account and include planting grounds, as well as the development of a landscape design (creating gardens, recreation areas, playgrounds and sports grounds, and bike lanes). Projects also involve the construction of schools, nurseries and other social and cultural facilities. In the case of the ZILART residential

complex, for example, 48 percent of the entire plot will be set aside for green space and pedestrian areas.

These and other projects are integral to LSR Group's activities to help create sustainable, environmentally sound cities. We plan to continue developing green building technology, thereby assisting in the preservation of natural resources for future generations, while supporting the health, wellbeing, quality of life and standard of living of the people who are residents of our buildings.



ANNEXES

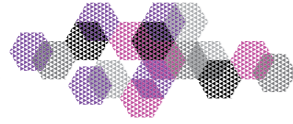
Annexes

Abbreviations and designations

GAOORDI	League of Public Associations of Parents of Children with Disabilities (of St. Petersburg)
Group/LSR Group	PJSC LSR Group and its subsidiaries (Group companies)
Company	PJSC LSR Group
IFRS	International Financial Reporting Standards
UN	United Nations
OHS	occupational health and safety
Report	the PJSC LSR Group Sustainable Development Report 2018
Reporting period	1 January–31 December 2018
GRI Standards	the Global Reporting Initiative Sustainability Reporting Standards
ETP	electronic trading platform
AR	absence rate
EPRA	the European Public Real Estate Association
FA	fatal accidents
HR	human resources
GRI	Global Reporting Initiative
LTI	lost time injuries
LTAFR	lost time accident frequency rate
LTIFR	lost time injury frequency rate
SR	severity rate

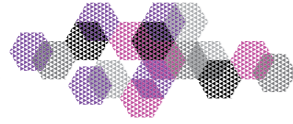
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Contact information

Additional up-to-date information about sustainable development at the Group or any other issues associated with this Report can be found on our website www.lsrgroup.ru or requested using the following contact information:

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