

# SUSTAINABILITY REPORT 2017



# 2017

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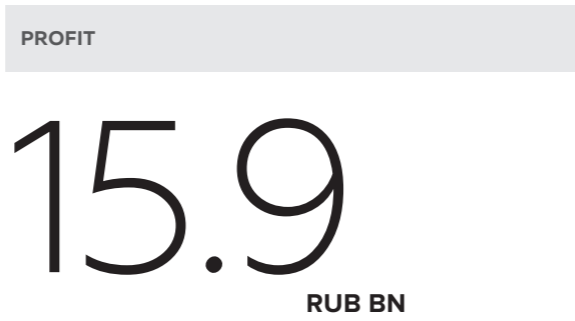
# KEY NUMERICAL INDICATORS AND RESULTS OF YEAR 2017



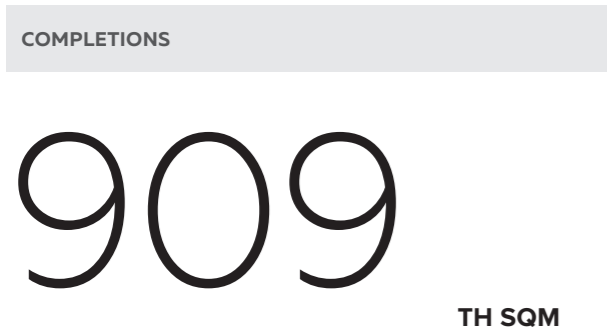
## FINANCE AND PRODUCTION



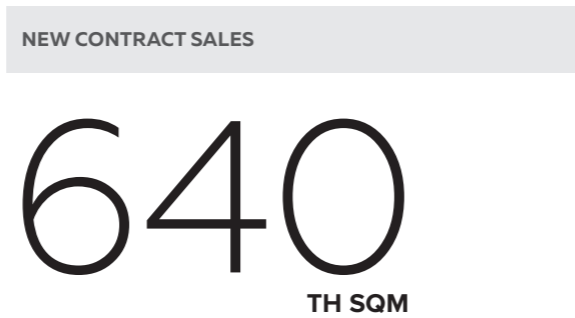
revenue increase by 30%



profit increase by 73%



commissioned area

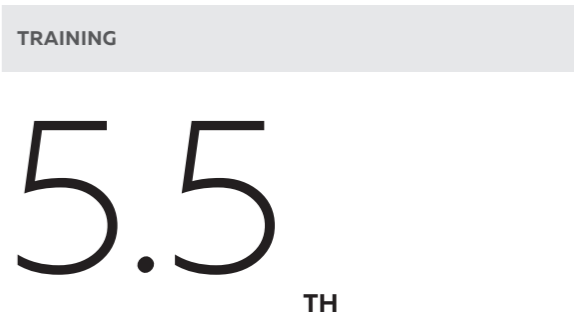


net area sold

## PERSONNEL



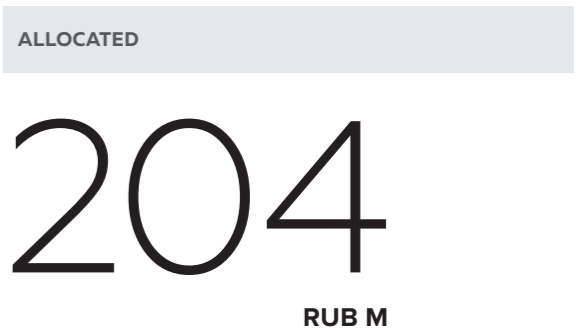
listed staff quantity



employees completed training courses



average salary



amount allocated for implementation of social programmes for employees

# KEY NUMERICAL INDICATORS AND RESULTS OF YEAR 2017

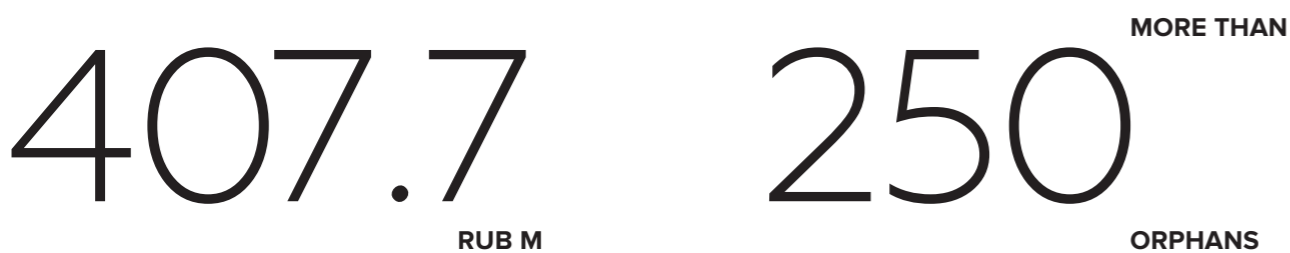
## OCCUPATIONAL HEALTH AND SAFETY



lost time injury frequency rate

injury severity rate

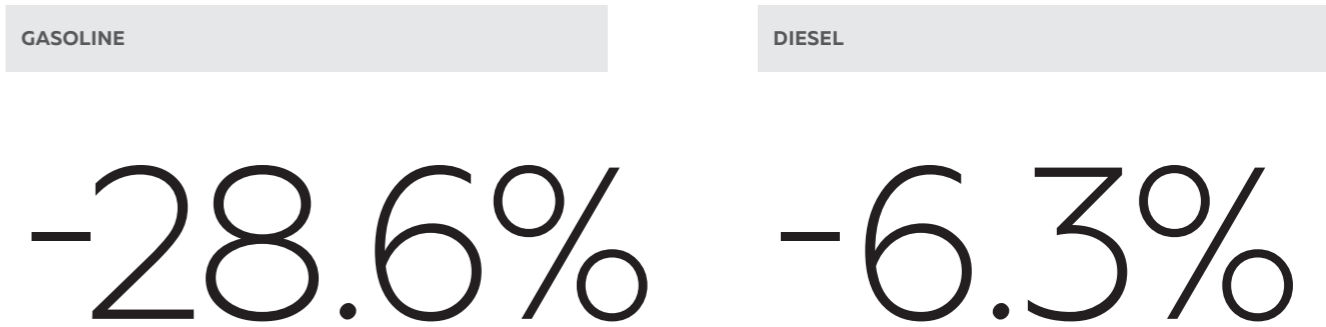
## OPERATIONS AREA DEVELOPMENT



investments allocated for the implementation of social and charitable projects and construction of social infrastructure facilities

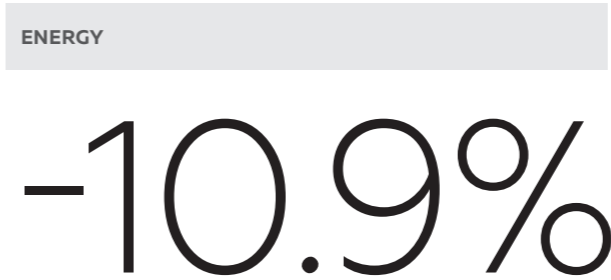
have found loving families thanks to the cooperation of the Group with the charitable foundation «Children Wait»

## ENVIRONMENTAL MANAGEMENT



reduction in the consumption of gasoline

reduction in the consumption of diesel



energy consumption decrease

# ABOUT THE REPORT

This Sustainability Report of LSR Group<sup>1</sup> (hereinafter referred to as the «Report») is the first non-financial report presenting key results of the Group's activity in the economic, social and environmental fields during the reporting period from 1 January 2017 to 31 December 2017.

The Report is prepared according to Sustainability Reporting Standards of Global Reporting Initiative GRI (hereinafter referred to as the «GRI Standards») and «basic» disclosure option. The Report also reflects the contribution of LSR Group to the achievement of the sustainable development goals adopted by the UN in 2015 and stated in the document «Transforming our world: the 2030 Agenda for Sustainable Development».

The preparation and publication of the Sustainability Report is an important step for us in the enhancement of social responsibility and information transparency for all of the Group's stakeholders.

## SIGNIFICANT TOPICS IDENTIFICATION PROCESS

In the course of the Report contents determination, the significance of various activities of the Group was assessed in terms of their economic, environmental and social impact on stakeholders. The approach to the identification of significant topics subject to disclosure herein was based on recommendations included in the GRI Standards and included several steps:

1. Analysis of internal and external data sources.
  - Analysis of internal reports on the Group's activities
  - Analysis of available public information about the Group
  - Comparative analysis of significant topics disclosed by foreign construction companies
2. Compilation of a full list of significant topics.
  - Development of a preliminary list of significant topics based on the analysis performed
  - Reconciliation of the preliminary list of significant topics with responsible representatives of the Group.

The final list containing 11 topics was prepared based on the data obtained during the assessment process. These topics were approved as significant both for internal and external stakeholders.

<sup>1</sup> LSR Group, Public Joint Stock Company and its subsidiaries (hereinafter referred to as the «Group's companies»), hereinafter jointly referred to as «LSR Group or the Group».

## REPORT BOUNDARIES

Financial and non-financial data represented in the Report cover the activities of the companies of LSR Group in accordance with the consolidated financial statements under IFRS for 2017. In case of the disclosure of any indicators with boundaries other than those described hereinabove, the information on the companies included in the scope of the Report is additionally indicated herein.

## LIST OF SIGNIFICANT TOPICS OF THE REPORT

Category	Material Topics
Economic Topics	<b>GRI 201. ECONOMIC PERFORMANCE</b> <b>GRI 203. INDIRECT ECONOMIC IMPACTS</b> <b>GRI 205. ANTI-CORRUPTION</b>
Environmental Topics	<b>GRI 302. ENERGY</b> <b>GRI 303. WATER</b> <b>GRI 305. EMISSIONS</b> <b>GRI 306. WASTE</b> <b>GRI 307. ENVIRONMENTAL COMPLIANCE</b>
Social Topics	<b>GRI 403. OCCUPATIONAL HEALTH AND SAFETY</b> <b>GRI 404. EDUCATION AND TRAINING</b> <b>GRI 413. LOCAL COMMUNITIES</b>

# STATEMENT OF THE MANAGEMENT

Dear shareholders, colleagues and partners,

I'm very happy to present to you the very first Report of LSR Group related to its activities in the field of sustainable development. The decision to prepare this Report is based on our desire to enhance information transparency within the Group and to make a comprehensive presentation of our operational results, achievements and plans in the field of social responsibility and sustainable development.

Despite numerous changes in the external environment and decrease in real incomes, LSR Group continued to demonstrate operational stability and registered the record revenue of 138.5 billion roubles in 2017, which is by 30% higher than in 2016. In addition, the profit for the period increased by 73%, up to 15.9 billion roubles. Stable financial and operational results allow us to expand our activities in the field of sustainable development and value generation for the stakeholders.

During 25 years of operation in the Russian construction market, LSR Group has not only achieved high operational and financial results, but also made a significant contribution to public good generation. We are convinced that we will not be able to retain our leadership in the construction industry and secure the Group's long-term growth without assuming responsibility to the community, environment and future generations.

Our approach to the management of various sustainability aspects is based on the principles of ethical and fair business conduct, openness and transparency as well as on the understanding of expectations, interests and needs of our stakeholders. We adhere to the best international practices. In particular, we support and share the Sustainable Development Goals adopted by the UN General Assembly in 2015 and contribute to their achievement.

Proactive and balanced management of economic, environmental and social aspects of our impact at all stages of operations is a part of the Group's philosophy. Investments in human capital, charity, support of key operations areas as well as the minimisation of negative environmental impacts are our priorities in the field of sustainable development.

## OPERATIONS AREA DEVELOPMENT

Achievement of the strategic goals by LSR Group is largely interrelated with the sustainable development of key operations areas. The Group makes a significant contribution to the economic development of these areas through the creation of jobs, investment in the infrastructure of cities of presence and tax payment. In addition, we actively participate in solving the priority social development tasks within our operations areas, allocating funds to charitable projects and social support programmes. Moreover, we are involved in the revival of cultural heritage sites in Russia. We invested 407.7 million roubles

in the implementation of social and charitable projects and construction of social infrastructure facilities in 2017.

We actively cooperate with charitable foundations and associations to generate public good and improve the life quality of vulnerable population groups. Thus, since 2012, the Group has implemented a number of programmes and activities for assisting disabled people in close cooperation with the Saint Petersburg Association of Public Unions of Parents of Handicapped Children (GAOORDI). The granting of the first assisted living house in Russia for handicapped people of working age to GAOORDI Association by the Group became a bright event in 2017.

One of the longest and most effective partnerships in terms of social value generation is our cooperation with the charitable foundation «Parents' Bridge». Together with this foundation, we have developed and are currently implementing a programme aimed at the support of families, who want to take care of children deprived of parental care, including children with disabilities. We also assist in the adoption of orphans within the framework of our partnership with the charitable foundation «Children Wait». More than 250 children have found a loving nuclear family as a result of our work in 2017, whereas their total number over 7 years of the project implementation has reached 2,885.

## HUMAN RESOURCE DEVELOPMENT

We highly appreciate our employees and work hard to create an enabling working environment for them. Training, development, motivation and social support of employees are the basis of our approach to personnel management. Thus, in 2017, we allocated 204 million roubles for implementation of social programmes as part of the ongoing work aimed at creation of comfortable working environment and welfare improvement for both our employees and their families.

We constantly invest in the creation of opportunities for the professional growth and self-fulfilment of our employees. 5,500 of employees of Russian companies of the Group took part in training and professional development programmes in 2017, which is 1,900 more than in 2016. In addition, the total cost of the training and development programme implementation amounted to 17.6 million roubles.



**Dmitry Gontcharov**  
Chairmen of the Board of the Board of Directors  
of PJSC LSR Group

Despite our efforts aimed at the creation of safe working conditions, we deeply regret to report five fatalities from the total number of 36 industrial accidents that occurred in 2017. We thoroughly investigated each accident and implemented the relevant measures for future prevention of similar situations posing a threat to health and life of employees. The efforts focused on risk management in the field of occupational health and safety as well as on safety culture development are our top priority for the years ahead.

## ENVIRONMENTAL MANAGEMENT

Our operations are guided by the principles of mitigation of the negative environmental impact and rational use of natural resources. LSR Group constantly improves its approaches to environmental impact management, and it allocates resources for environmental protection and compensatory measures allowing for preventing and mitigating the negative impacts on the flora and fauna.

The Group contributes to environmental management through the use of advanced and environmentally friendly solutions and technologies. When making decisions related to investments or new equipment purchase, we always pay special attention to the criteria of energy efficiency and environmental safety. Thanks to our systematic work in this field, we managed to reduce energy consumption by 10% in 2017 if compared to 2016. Furthermore, we significantly reduced fuel consumption.

We take care of urban ecology in the cities of our operations and implement advanced solutions in the field of «green» construction. Thus, in 2017, the residential complex NEVA HAUS on Petrovskiy Island that is currently under construction became the first residential complex in St Petersburg officially certified according to energy efficiency, water efficiency and environmental standards for GREEN ZOOM real estate facilities.

**We would like to thank all the employees and partners of LSR Group for their engagement in our common achievements!**

**The Group's contribution to the social and economic prosperity of its operations areas is not only limited to the erection of high-quality modern housing. We intend to further strengthen our leadership and participate in public good generation, cultural heritage preservation, ecosystems restoration and support of vulnerable population groups.**

# ABOUT LSR GROUP

## LOCATION OF OPERATIONS

In recent years, the Group managed to grow from the «home» market leader of Saint Petersburg and the Leningrad Region into one of the largest Russian diversified business structures operating both in other regions of its country and abroad. The operations of LSR Group are concentrated in three largest and most economically developed regions of the Russian Federation:

- Saint Petersburg and the Leningrad region;
- Moscow and the Moscow region;
- Yekaterinburg and the Sverdlovsk region.

Region/city of operations	Year of entry into the market	Business activities
Saint Petersburg and the Leningrad Region	1993	<ul style="list-style-type: none"> <li>• Development and construction of all real estate types – from mass market real estate development and construction to luxury real estate</li> <li>• Extraction and production of non-metallic materials (sand, crushed granite)</li> <li>• Building materials production (bricks, reinforced concrete, ready-mix concrete, grouts, aerated concrete)</li> <li>• Rendering of mechanised services<sup>1</sup></li> </ul>
Moscow and the Moscow Region	2001	<ul style="list-style-type: none"> <li>• Realisation of construction projects in the capacity of an investor, developer or contractor, including execution of government orders</li> <li>• Building materials production (reinforced concrete products for prefabricated housing construction, bricks)</li> <li>• Rendering of mechanised services</li> </ul>
Yekaterinburg and the Sverdlovsk region	End of 2007	<ul style="list-style-type: none"> <li>• Market real estate development and construction</li> <li>• Manufacturing of reinforced concrete products for prefabricated housing construction</li> </ul>
Europe (Munich, Germany)	2003	<ul style="list-style-type: none"> <li>• Realisation of development projects in Germany</li> <li>• Supervision of contracts for supply of construction machines and equipment of foreign manufacturers to the facilities of LSR Group</li> </ul>

<sup>1</sup> Mechanised services include works performed by tower cranes and other construction equipment as well as the transport of building materials

## LSR GROUP TODAY

LSR Group, PJSC has operated in the Russian construction market since 1993. It is one of the largest vertically integrated construction holdings in the country. The core business activities of the Group are production of building materials, real estate development and construction.

Currently, these activities of LSR Group mutually complement each other thereby ensuring a synergistic effect. Well-established interaction procedures allow the Group's companies to render complex services, while reducing production costs and promptly reacting to changes in the external environment.

LSR Group made the initial public offering in 2007. At the moment, shares of LSR Group are traded on Russian trading floor of Moscow Stock Exchange, PJSC, whereas its global depository receipts (GDPs) are traded on London Stock Exchange.



# ABOUT LSR GROUP

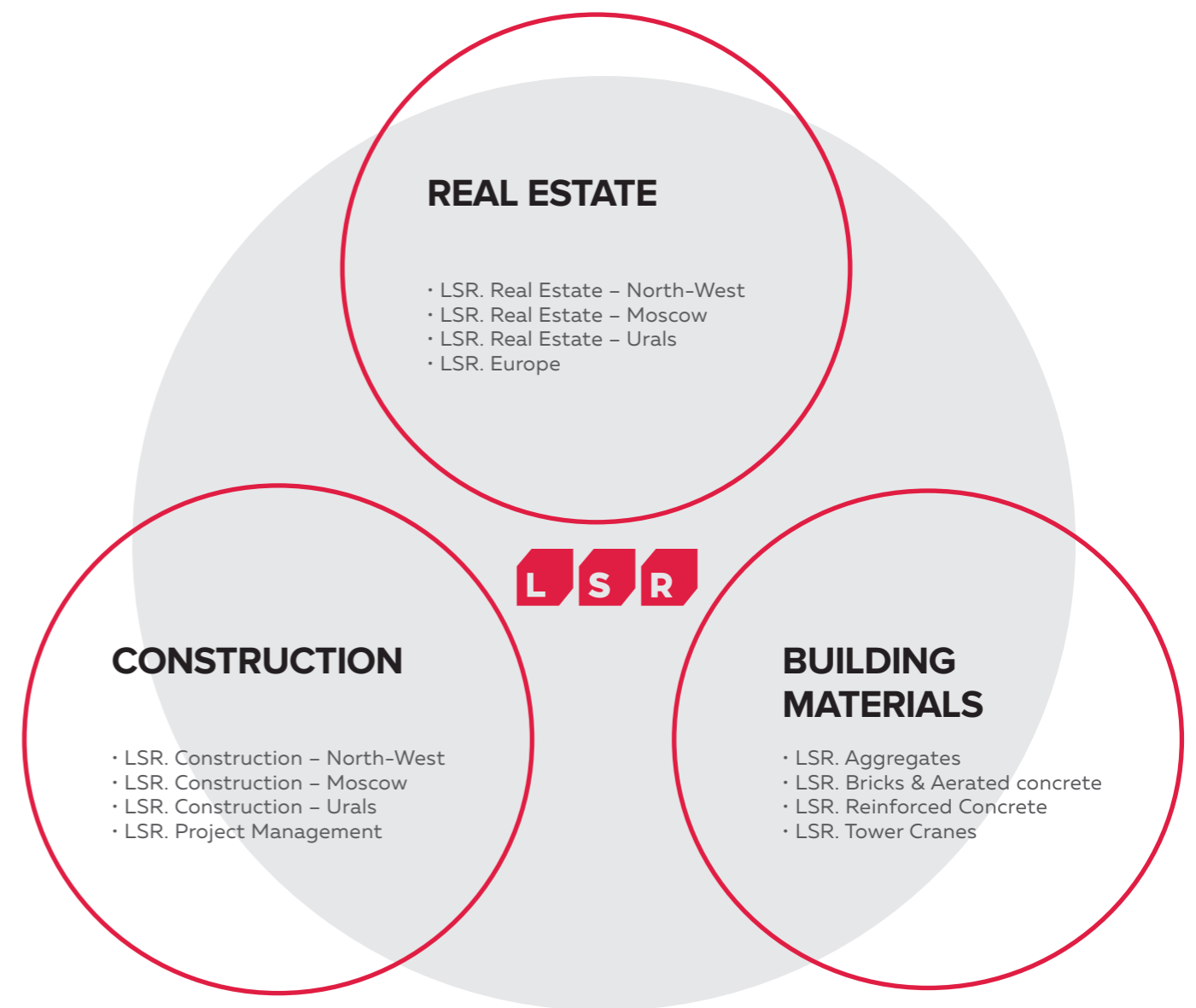
## CORPORATE ORGANISATION OF LSR GROUP

The approach to the management of the companies constituting the holding is based on their merger into business units based on manufactured products. Optimisation of the existing management system and introduction of unified corporate project management standards allowed us to achieve a significant synergistic effect.

The Management Company of the Group performs administrative functions and unites directorates for HR management, IT, finance, legal issues, investor relations and corporate communications as well as procurement and logistics departments. Accounting, legal and IT functions are centralised at the level of the Management Company.

### CORPORATE ORGANISATION OF LSR GROUP

Business activities	Description	Business units
Real estate	Structural units specialised in development projects in segments of luxury, economy and business class housing and commercial real estate	<ul style="list-style-type: none"> <li>• LSR. Real Estate – North-West</li> <li>• LSR. Real Estate – Moscow</li> <li>• LSR. Real Estate – Urals</li> <li>• LSR. Europe</li> </ul>
Construction	Structural units specialised in construction of facilities for development companies of the Group as well as those ordered by other market participants involved in rendering of contracted construction services and transportation of building materials	<ul style="list-style-type: none"> <li>• LSR. Construction – North-West</li> <li>• LSR. Construction – Moscow</li> <li>• LSR. Construction – Urals</li> <li>• LSR. Project Management</li> </ul>
Building Materials	Structural units involved in building materials production (bricks, concrete, concrete and reinforced concrete products, construction mixtures, aerated concrete blocks, crushed granite) as well as in extraction of sea and pit sand. A dedicated business unit «LSR. Tower Cranes» is specialised in tower crane leasing	<ul style="list-style-type: none"> <li>• LSR. Aggregates</li> <li>• LSR. Bricks &amp; Aerated concrete</li> <li>• LSR. Reinforced Concrete</li> <li>• LSR. Tower Cranes</li> </ul>





# STRATEGY AND SUSTAINABILITY MANAGEMENT

## STRATEGIC VISION, MISSION AND VALUES

The main vector of strategic development of LSR Group is aimed at strengthening our leading positions in real estate development and construction markets, manufacturing of building materials and rendering of construction services in key operations areas of the Group – Saint Petersburg, Moscow and Yekaterinburg. In the course of its daily activities, the Group strives to establish high quality standards for other industry players as well as to preserve and develop its production potential, thus making a significant contribution to the economic development of Russia.

LSR Group's main factors of success are vertically integrated business model that is implemented in three key areas of operation, business diversification by industries and market segments as well as a large scale of activities. We are aiming at further expansion of our portfolio of development projects, to increase our production capacity and long term capitalisation growth, thus to ensure Group's sustainable development.

In its daily activities, LSR Group is guided by certain principles based on our strategic vision, goals and objectives:

- Quality assurance at each construction phase and responsibility to customers and partners
- Single ideology and centralised standards for construction and building materials manufacturing

- Investments in modernisation of existing production facilities and innovative approaches and technologies that ensure the maximum business profitability

- Creation of necessary conditions for effective work of personnel and ample opportunities for professional development and career growth

- Adherence to principles of openness, transparency and risk mitigation for all the stakeholders, continuous improvement of corporate management methods

- Ensuring of sustainable business development that contributes to social and economic prosperity of key operations areas of the Group

- Use of advanced approaches to implementation of social and charitable programmes and investments in sectors that generate public good

- Awareness of responsibility to society, including that for the preservation of the environment.

### Mission of LSR Group

We create housing – the thing that is of the greatest importance to all people. This is their space for living, communication, creativity, development, preservation of family traditions and values. We do everything possible to make the dream of residents of big cities and small towns about high quality and modern housing come true. We work hard to guarantee that the buildings we erect create comfortable living conditions for people for many years.

## APPROACH TO SUSTAINABILITY MANAGEMENT

Involvement and commitment to ideas of sustainable development and corporate social responsibility are in the focus of special attention of the management of LSR Group. The principles of business conduct consistently implemented by LSR Group require a high degree of responsibility to society, nature and future generations. Investments in human capital, improvement of social environment and life quality in key operations areas of the Group as well as the minimisation of negative environmental impact are the top priorities for us.

The Group's approach to management of economic, environmental and social aspects of its operations is based on the world best practices in the field of sustainable development. At all stages of operations, the Group is aimed at careful consideration of needs and expectations of its stakeholders, taking care of local communities, employees and the environment.

### KEY DOCUMENTS

There is a number of internal regulations in LSR Group governing its activities in the field of sustainable development. The key parts of these documents are:

- Code of Ethics and Business Conduct
- Decree «On labour protection, occupational and fire safety at the enterprises of LSR Group»
- Regulation on the personnel selection and appointment to the positions in LSR Group

- Regulation on the adaptation of the employees in LSR Group
- Instructions on the corporate awards of LSR Group
- Instructions on the housing programmes of LSR Group
- Instructions on conflict of interest
- Anti-Bribery Declaration of the Board of Directors
- Anti-corruption Management Principles.

Each business unit and company of the Group is subject to the local regulations that are based on the requirements and recommendations contained in the relevant corporate documents as well as include provisions based on individual characteristics and company-specific features of operations.

### KEY ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT

The activities of LSR Group in the field of sustainable development can be divided into four key areas. In addition, each of these areas is equally important for the Group in terms of positive impact on the society, the environment and key operations areas.

### MAIN ACTIVITIES OF LSR GROUP IN THE FIELD OF SUSTAINABLE DEVELOPMENT

Area of focus	Contribution of LSR Group
Personnel development and motivation	<ul style="list-style-type: none"> <li>Guaranteed stable income and timely payment of competitive salaries and wages</li> <li>Creation of opportunities for professional growth and career development of employees</li> <li>Social benefits and social protection measures for all categories of employees</li> <li>Creation of comfortable social and living conditions for workers</li> <li>Implementation of the Management and Specialist Training Programme within LSR Group</li> <li>Training and professional development of employees in training centres and contracted companies</li> </ul>
Assistance in the development of operations areas	<ul style="list-style-type: none"> <li>Improvement of life quality of the population through construction of comfortable and affordable housing</li> <li>Promotion of employment in operations areas</li> <li>Increase of the revenue part of regional budgets</li> <li>Promotion of the development of other economic sectors due to the multiplying effect</li> <li>Participation in the landscaping, construction and reconstruction of important social facilities</li> <li>Care for children, including orphans and disabled children</li> <li>Support of vulnerable population groups</li> <li>Support of cultural projects and the restoration of architectural monuments</li> </ul>
Environmental Management	<ul style="list-style-type: none"> <li>Introduction of modern approaches and methods for the management of environmental impact of the Group</li> <li>Rational use of natural resources</li> <li>The restoration of ecosystems and prevention of environmental pollution</li> <li>Mitigation of negative environmental impact through the introduction of advanced technologies and equipment upgrade</li> </ul>
Occupational health and safety	<ul style="list-style-type: none"> <li>Creation of safe working conditions</li> <li>Risk assessment within the framework of occupational safety</li> <li>Audit and inspections of issues related to occupational health and safety</li> <li>Introduction of a three-step compliance monitoring system in the field of labour protection, occupational and fire safety requirements</li> <li>Establishment of requirements for contracting organisations in terms of compliance with industrial safety standards in the course of work performance at the Group's facilities</li> </ul>

### CORPORATE ORGANISATION FOR SUSTAINABILITY MANAGEMENT

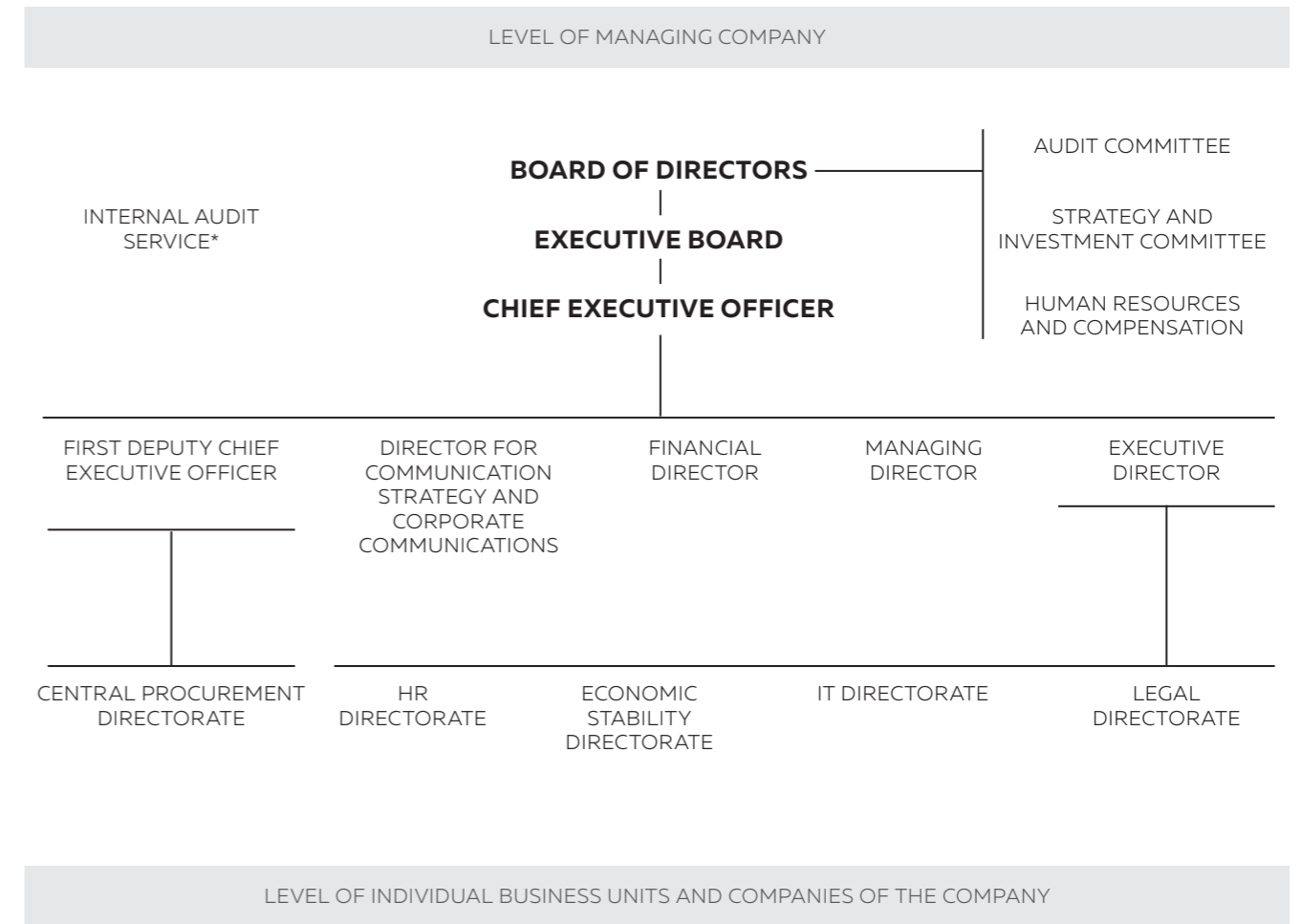
The management of sustainable development issues is integrated into the existing corporate management system of LSR Group and is implemented at all organisational levels.

The Board of Directors of the Group, committees of the Board, Executive Board and Chief Executive Officer (CEO) determine the priority areas and exercise overall management of LSR Group, including its activities in the field of sustainable development. Setting and implementation of specific goals and

initiatives in the field of sustainable development are in the scope of responsibility of the relevant structural units of the Management Company.

The management of sustainable development issues at the level of individual business units of LSR Group is the responsibility of their respective Managers. Functional structural subdivisions, accountable to these Managers, directly implement the assigned tasks.

### CORPORATE ORGANISATION FOR SUSTAINABILITY MANAGEMENT



\* From the functional point of view the Internal Audit Service is under control of the Board of Directors, whereas from the administrative point of view it is accountable to the Chief Executive Officer.

## MEMBERSHIP OF INDUSTRY ASSOCIATIONS AND EXTERNAL INITIATIVES

LSR Group takes an active position and contributes to the support of entrepreneurship as well as the development of the construction sector and regional industry. The exchange of professional experience, participation in solving of urgent industry problems and development of operations areas are the significant focus points of the Group.

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

- **Building Associations and Contractors Union.** The main objectives of the Union are coordination of efforts of the professional community in solving of current industry problems and protection of the construction market.
- **The Leningrad Regional Chamber of Commerce and Industry.** The Chamber of Commerce and Industry conducts activities aimed at the development and support of entrepreneurship and competition.

• **Builders of Russia Union.** The Union is one of the oldest public associations in the industry, the main goal of which is to pool together efforts of its members with the purpose of strengthening and development of the construction industry.

• **Union of Industrialists and Entrepreneurs of Saint Petersburg** is the association of individuals, the main goals of which are complex development of regional manufacturing, support of business activity and introduction of fair competition principles, social responsibility and business ethics into the business community.

• **Union of Industrialists and Entrepreneurs of the Leningrad Region.** The goals of the Union are similar to those of the Union of Industrialists and Entrepreneurs of Saint Petersburg but are realised in the Leningrad region.


• **National Association of Housing Developers (NOZA).** The priority activities of the Association are expert participation in the legislative processes and formation of the community of bona fide professional housing development companies.

## CONTRIBUTION TO THE ACHIEVEMENT OF SUSTAINABLE DEVELOPMENT GOALS

LSR Group supports the Sustainable Development Goals adopted by the UN General Assembly in 2015 and aimed at the handling of crucial economic, social and environmental issues.


The group seeks to contribute to the achievement of global sustainability goals through responsible business management, mitigation of negative environmental impact and implementing charitable and social support projects.

### THE GROUP'S CONTRIBUTION TO ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS ADOPTED BY THE UN GENERAL ASSEMBLY

- 


**01. NO POVERTY**

**End poverty in all its forms everywhere**

  - Creation of workplaces in operations areas and guarantee of stable income
  - Implementation of social programmes for employees (including discounts for housing purchase)
  - Support to socially vulnerable population groups (including large and low-income families)
  - Assistance in the development, social adaptation and vocational guidance of children and adolescents
- 

**03. GOOD HEALTH AND WELL-BEING**

**Ensure healthy lives and promote well-being for all at all ages**

  - Health care activities for employees (organisation of mass sports events, discounts for sanatorium-resort therapy, co-financing of voluntary health insurance)
  - Ensuring of safe working conditions for employees
  - Accident prevention, training in methods of operation promoting health and safety
  - Ensuring of decent social and living conditions for workers (purchase of overalls, catering, transportation to remote facilities and other relevant measures)
- 

**04. QUALITY EDUCATION**

**Ensure inclusive and quality education for all and promote lifelong learning**

  - Training and professional development of employees in training centres of the Group
  - Implementation of training programmes for managers and specialists in the HR Assessment and Development Centre
  - Educational activities within the programme «Growing with LSR»
  - Organisation of practical training of students at the Group's facilities

- 

**06. CLEAN WATER AND SANITATION**

**Ensure access to water and sanitation for all**

  - Reducing of the impact on surface water sources due to high-quality wastewater treatment
- 

**07. AFFORDABLE AND CLEAN ENERGY**

**Ensure access to affordable, reliable, sustainable and modern energy for all**

  - Consistent decrease of power consumption
- 

**08. DECENT WORK AND ECONOMIC GROWTH**

**Promote inclusive and sustainable economic growth, employment and decent work for all**

  - Promotion of employment and creation of decent jobs
  - Respect of labour rights (including ensuring of safe working conditions, fair salaries and wages)
  - Promotion of development of other economic sectors and revitalising of the investment environment in operations areas
  - Increase of revenue part of regional budgets
- 

**09. INDUSTRY, INNOVATION AND INFRASTRUCTURE**

**Build resilient infrastructure, promote sustainable industrialisation and foster innovation**

  - Use of modern energy-efficient and water-efficient technologies in the construction of new real estate facilities
- 

**11. SUSTAINABLE CITIES AND COMMUNITIES**

**Make cities inclusive, safe, resilient and sustainable**

  - Mitigation of negative environmental impact through reducing of «per unit» indicators of pollutant emissions
- 

**12. RESPONSIBLE CONSUMPTION AND PRODUCTION**

**Ensure sustainable consumption and production patterns**

  - Rational use of natural resources
  - Reuse of generated wastes
- 

**14. LIFE UNDER WATER**

**Conserve and sustainably use the oceans, seas and marine resources**

  - Rational use of resources of the water area of the Gulf of Finland during the operation, implementation of a wide range of compensatory measures for biodiversity conservation
- 

**15. LIFE ON LAND**

**Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss**

  - Measures for the reclamation of territories involved in production activities
  - Preservation and enhancement of biological diversity, in particular, fish resources
- 

**16. PIECE, JUSTICE AND STRONG INSTITUTIONS**

**Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels**

  - Anti-corruption and anti-fraud management, identification and prevention of conflicts of interest
  - Asses to up-to-date and reliable information on the Group's operations and results for all stakeholders.
  - Compliance with legal requirements applicable to the Group's operations

## RISK MANAGEMENT IN THE FIELD OF SUSTAINABLE DEVELOPMENT

Timely identification, assessment and management of risks, including those in the field of sustainable development, contribution to achievement of the Group's goals and objectives and its long-term success.

LSR Group has a multi-stage risk control and internal monitoring system that contributes to its corporate sustainability. General risk control management and internal monitoring are included in the scope of responsibilities of the Group's Board of Directors. The Audit Committee of the Board of Directors monitors reliability and operational efficiency of the risk control and internal monitoring system, evaluates the effectiveness of existing risk management procedures, considers information related to the most significant risks of the Group and plans for its mitigation. Key decisions on risk management and internal control are made by the Executive Board.

The Internal Audit Service evaluates the effectiveness of the risk management system, internal control and corporate governance at the level of structural divisions of individual companies of LSR Group. The Internal Audit Service reports to the Audit Committee and the Group's management obtained evaluation results.

Operational risk management is carried out by the individual companies of LSR Group in accordance with general corporate principles and procedures as well as provisions of the local regulations.

We identify the following key risks that affect achievement of the goals and objectives set by the Group: geographical and regional risks, industry risks, financial risks and legal risks. Detailed information on risks associated with the Group's operations is included in the Annual Report of LSR Group for year 2017.

Special attention within the framework of corporate risk management is paid to those risks and challenges that are related to the Group's activities in the field of sustainable development.

### MAIN RISKS IN THE FIELD OF SUSTAINABLE DEVELOPMENT

Risk areas	Explanation	Measures for mitigation
<b>Risks related to changes in the legislation</b>	Risks associated with obtaining of all the necessary licences, permits and approvals as well as with changing/toughening of legal requirements	<ol style="list-style-type: none"> <li>1. Regular monitoring of legislative changes</li> <li>2. Making of decisions related to response of the Group and its companies to emerging changes and communication of these decisions to responsible persons and units</li> </ol>
<b>Risks related to HR management</b>	Risks associated with engagement, retention and motivation of qualified employees	<ol style="list-style-type: none"> <li>1. Maintenance of the competitive rates of salaries and wages</li> <li>2. Development and implementation of training programmes</li> <li>3. Personnel assessment</li> <li>4. Measures aimed at social support of employees</li> </ol>
<b>Risks related to environmental management</b>	Risks associated with negative environmental impact and non-compliance with the established standards for impact on individual environmental components	<ol style="list-style-type: none"> <li>1. Legal compliance in the field of environmental protection</li> <li>2. Obtaining of permits in the field of environmental management</li> <li>3. Introduction of approaches to management of environmental impact</li> </ol>
<b>Risks related to occupational health and safety</b>	Risks associated with accidents and incidents, job-related injuries and fatalities, occupational diseases	<ol style="list-style-type: none"> <li>1. Legal compliance in the field of occupational health and safety</li> <li>2. Maintenance of corporate ethics and safety culture</li> <li>3. Audit and inspections of issues related to occupational health and safety</li> </ol>
<b>Risks related to ineffective supplier interaction</b>	Risks associated with supplies of low-quality products and delays in delivery	<ol style="list-style-type: none"> <li>1. Evaluation of qualification and reliability of suppliers</li> <li>2. Improvement of internal procurement procedures</li> <li>3. Inclusion of additional requirements in the text of contracts</li> </ol>

## ETHICS AND ANTI-CORRUPTION MANAGEMENT

In its daily operations, LSR Group is guided by the principles of honest, transparent and ethical business conduct. Issues related to combating of all abuse types (including corruption, fraud and commercial bribery) are in the focus of constant attention of the Group's management and employees.

LSR Group complies with all the fundamental anti-corruption management principles established by the applicable laws of the Russian Federation and generally accepted rules of international law. In addition, the Group works on development of uniform internal standards and corporate code of conduct, prevention of conflicts of interest and unlawful acts. LSR Group is guided by the following key regulations in the field of anti-corruption and anti-fraud management:

- Decree of the CEO of LSR, CJSC «On selected measures aimed at the enforcement of the Federal Law on Countering Corruption»
- Information Letters of the Executive Director of LSR, CJSC
- Anti-Bribery Declaration of the Board of Directors
- Code of Ethics and Business Conduct
- Instructions on Conflict of Interest in LSR Group
- Anti-corruption Management Principles in LSR Group.

Collection and consolidation of data on corruption risks are carried out with the use of dedicated state-of-the-art information systems. The risk assessment procedure includes several stages. This allows considering of all possible negative consequences and increase the effectiveness of existing anti-corruption management approaches. In 2017, the assessment of corruption risks was carried out in all 13 Russian business units.

Direct anti-corruption management in LSR Group is carried out based on Action Plans aimed at the prevention of corruption and other offences. These Plans are annually approved by managers of the Group and its business units.

### «TRUST» HOT LINE SERVICE

Anonymous hot line is a tool for the collection and analysis of information related to possible facts of corruption or fraud, unethical behaviour and other abuses. Contact telephone and e-mail ([trust@lsrgroup.ru](mailto:trust@lsrgroup.ru)) of «Trust» hot line service are posted on the website of LSR Group and in all public domains of its companies. In addition, anyone is able to report any possible abuse.

Operation of the hot line was significantly restructured and improved in 2017. Thus, the number of channels available for reporting of suspicions and violations was increased. The contact line system allows for both a personal talk to an operator and recording of an anonymous voice message. Messages can also be sent to the e-mail address of «Trust» hot line.

The Economic Stability Directorate of the Management Company processes each incoming message, checks each individual fact of violations and provides feedback to each applicant. During 2017, 26 appeals were received through «Trust» hot line. 6 of them were related to corruption. The reported corruption facts were not corroborated in the course of the subsequent check.

### INSTRUCTION ON ANTI-CORRUPTION POLICIES AND METHODS

Informing of the stakeholders of anti-corruption policies and measures currently existing in LSR Group	Persons
The total number of informed members of key corporate governance bodies (General Meeting of Shareholders, Board of Directors, Executive Board)	13
Total quantity of employees informed	10.547
Total quantity of employees informed	3.500

LSR Group pays special attention to informing of counterparts and partners about anti-corruption issues as well as development of intolerance culture in relation to corruption and unethical behaviour among the Group's employees. The process of total instruction and familiarisation of all the employees of LSR Group with anti-corruption policies and measures was completed in 2017.

The Economic Stability Directorate conducts periodic informational and educational meetings to explain the Group's intolerance attitude towards any manifestations of corruption. LSR Group also holds annual internal anti-corruption and anti-fraud conferences, involving all employees.

In 2017, two dedicated experts of the Group passed training on anti-corruption policies and measures during the 4th annual practical conference

«Intra-corporate Fraud Prevention and Counterpart Due Diligence Check» organised by Dialog Management Partners and supported by EY, Bureau van Dijk, etc.

Short-term and mid-term plans of the Group include further formation of proper understanding of anti-corruption principles among employees of the Group's companies. Introduction of anti-corruption clauses into templates of all standard contracts and agreements used by the Group in its relations with counterparts is scheduled for 2018.

## PROCUREMENT

Procurement is one of the most important business processes in LSR Group. It includes a range of activities aimed at the supply of the Group with quality goods from reliable suppliers within the required time period and under the most favourable delivery terms. In addition, the selection of the suppliers and effectiveness of subsequent interaction with them directly influences manufacturing stability and quality of products.

In order to ensure open and transparent procurement process, the Group has developed regulatory documents that describe principles and methods

of interaction with suppliers. In 2017, we revised existing regulations and procurement provisions and developed the new Procurement Regulation that will enter in force in 2018. Special preparatory work and preliminary training of employees involved in procurement will be performed for the effective implementation of the Regulation.

### KEY PROCUREMENT PRINCIPLES OF LSR GROUP:

- Transparency
- Due diligence and equal rights of counterparts
- Competitive character of procurement procedures
- Unambiguity and uniqueness of evaluation criteria for counterparts and their proposals
- Objective and fair evaluation criteria for counterparts and their proposals
- Effectiveness of procurement procedures
- Professionalism and personal responsibility of procurement specialists and counterparts

The Central Procurement Directorate functioning within the Management Company controls all the procurement-related issues. The Directorate performs the following main tasks:

- Continuous supply of internal consumers with the most capital-intensive and important goods, including metal products, cement and petroleum products
- Ensuring of the procurement process effectiveness through consolidation of purchases within the entire Group and economy of scale
- Methodical support of procurement for all business units and development of a single information platform for electronic trade.

Based on the nomenclature group of goods and services, all purchases of the Group are divided into three types: centralised, consolidated and local. Centralised and consolidated procurement is conducted to meet basic capital needs of business units of LSR Group, including those of our contractors and subcontractors. The Central Procurement Directorate is responsible for centralised procurement. Consolidated procurement is performed by the relevant Centre of Competence that supervises business units of the Group within the correspondent business function. Local procurement is carried out by individual companies of the Group.

### SELECTION AND ASSESSMENT OF SUPPLIERS

Procurement planning in LSR Group is carried out on the annual basis. The main procurement methods of the Group are: simplified purchase, tender, request for quotations and special procurement procedures.

When preparing for the procurement, we develop the correspondent requirements for the procurement participants, supplied products and delivery terms. In case of the competitive procurement process, we establish evaluation criteria that must meet the principles of objectivity, unambiguity and uniqueness. Procurement documents include, without limitation, the following criteria: evaluation of contractual terms proposed by counterparts; evaluation of counterparts' qualification; due diligence assessment of counterparts. Based on the evaluation results, the correspondent rating is assigned to each counterpart that determines our decision on interaction with it and delivery terms.

Moreover, safety requirements for goods and products established by the RF laws and internal standards of LSR Group are taken into account in the course of the procurement documentation development. The requirements for purchased products are determined in such a way as to limit the possible negative impact on people and the environment. We assess risks of negative influence of purchased goods and products at the initial stage of suppliers' assessment and selection. If a selected supplier subsequently violates quality requirements for supplied products and does not undertake necessary measures to eliminate the identified nonconformities, we stop our collaboration with this supplier.

### TRANSITION TO ELECTRONIC TRADING PLATFORM

In order to ensure the openness, transparency and efficiency of the procurement process, it was decided to carry all purchasing activities on the electronic platform. We have tested several external electronic trading platforms in 2017. This allowed us to assess the possibility of integrated automation of procurement procedures. Based on testing results, we decided to launch our own electronic trading platform.

We developed technical specifications, selected a contractor and launched a pilot project in 2017. Full scale launch of the electronic trading platform of LSR Group is scheduled on autumn of 2018. This step will make purchases more open and competitive as well as expand our capabilities to analyse the procurement results. We are going to carry 100% of purchases on the electronic trading platform.

In order to ensure effective functioning of this platform, we started to develop a procurement data system in 2017. This system will be completed in 2018. It will cover all stages of the procurement process. Furthermore, it will be integrated with other relevant systems (e.g. contract approval system). The data system will perform the following tasks:

- Well-timed and complete satisfaction of demand for products with the most favourable ratio of price, quality and delivery terms
- Implementation of the effective organisational and economic procurement scheme
- Organisation of internal control/audit of the procurement management system and associated risks
- Development of fair competition.

### KEY PROCUREMENT RESULTS

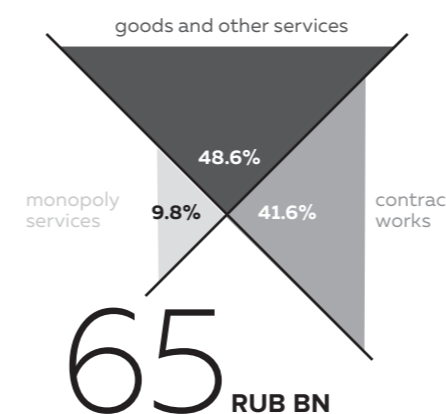
The total procurement costs of LSR Group in 2017 exceeded 65 million roubles. The largest part of the procurement volume (48.6%) was comprised by purchases of goods and other services, 41.6% accounted for procurement of contract works and 9.8% – purchases of monopoly services.

LSR Group worked in collaboration with approximately 5,000 suppliers in 2017, whereas the supplier database of the Group includes about 12,500 counterparts. In order to increase the stability of supplies and ensure the most favourable terms and conditions, we are going to further strengthen

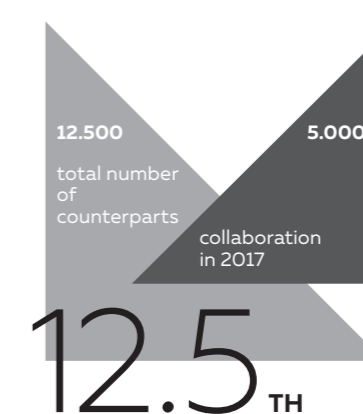
and develop relationships with our constant suppliers and partners.

We carry out centralised purchases from the largest suppliers, the list of which includes both manufacturers and dealers. When choosing counterparts, we give priority to original equipment manufacturers (all other things being equal). Therefore, in 2017, the annual volume of purchases from OEMs amounted to 82.3% of the total centralised procurement volume.

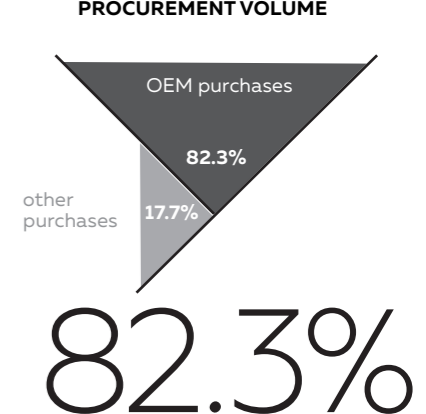
### TOTAL PROCUREMENT COSTS



### SUPPLIER DATABASE



### TOTAL CENTRALISED PROCUREMENT VOLUME



# STAKEHOLDER ENGAGEMENT

LSR Group pays special attention to the establishment of mutually beneficial and stable relations with all its stakeholders based on respect, cooperation, information transparency and observance of obligations.

The key stakeholders of LSR Group are persons and organisations influenced by the Group's activities as well as those who are able to influence the Group's ability to achieve its goals and objectives on their own discretion. Major stakeholders are shareholders and investors, government authorities, employees, contractors, suppliers, local communities as well as non-profit organisations and mass media.

The Group's priorities are the harmonisation of interests of various stakeholder groups and quick response to their expectations, needs and concerns. In

order to build the most effective and sustainable cooperation, we use dedicated tools and mechanisms of interaction with due account of the interests, needs and expectations of each particular group of stakeholders.

We strive to establish bilateral dialogue with our stakeholders and constantly receive feedback from them. For this purpose, the Group operates «Trust» hot line allowing any interested person to present any issue of concern on the condition of anonymity.

## KEY STAKEHOLDERS OF LSR GROUP



## MAJOR STAKEHOLDER GROUPS AND STAKEHOLDER INTERACTION SCHEMES

Stakeholder groups	Area of interests	Interaction schemes
<b>Shareholders and investors</b>	<ul style="list-style-type: none"> <li>Operational and financial results of the Group's activities</li> <li>Capitalisation growth and business sustainability increase of the Group</li> <li>Securing of shareholders' rights</li> <li>Information transparency</li> </ul>	<ul style="list-style-type: none"> <li>General meeting of shareholders</li> <li>Publication of corporate reports</li> <li>Publication of press releases, presentations and news</li> <li>Participation of the Group in investment conferences</li> <li>Organisation of on-site visits for investors</li> </ul>

## MAJOR STAKEHOLDER GROUPS AND STAKEHOLDER INTERACTION SCHEMES

Stakeholder groups	Area of interests	Interaction schemes
<b>Government authorities and regulators</b>	<ul style="list-style-type: none"> <li>Social programmes in key operations areas</li> <li>Limitation of negative impact on the environment</li> <li>Legal compliance of the Group's operations</li> </ul>	<ul style="list-style-type: none"> <li>Participation in conferences</li> <li>Preparation and publication of reports according to legal requirements</li> <li>Inspections performed by government authorities</li> <li>Observance of comments and instructions</li> <li>Participation of the Group in legislative processes and initiatives</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Safe working conditions</li> <li>Development, training and possibilities for professional growth</li> <li>Employment, fair salaries and wages</li> <li>Social protection and access to social programmes</li> </ul>	<ul style="list-style-type: none"> <li>Organisation of open bilateral communications</li> <li>Consideration of appeals incoming through «Trust» hot line</li> <li>Use of contemporary motivation methods</li> <li>Organisation of sports, charity and cultural events</li> <li>Creation of safe working conditions</li> <li>Health care activities for employees</li> <li>Creation of proper social and living conditions for workers</li> <li>Provision of social benefits</li> <li>Training and professional development in training centres</li> </ul>
<b>Purchasers</b>	<ul style="list-style-type: none"> <li>Quality and modern housing</li> <li>Competitive pricing</li> </ul>	<ul style="list-style-type: none"> <li>Complaint management</li> <li>Information provision through mass media</li> </ul>
<b>Suppliers, contracting organisations and other business partners</b>	<ul style="list-style-type: none"> <li>Performance of mutual obligations</li> <li>Transparent, open and competitive procurement procedures</li> <li>Business sustainability</li> <li>Compliance with business code of conduct, anti-corruption management</li> <li>Product quality assurance and compliance with deadlines for work performance</li> </ul>	<ul style="list-style-type: none"> <li>Conclusion of contracts, agreements</li> <li>Tender procurement procedures (<a href="http://zakupki.lsrgroup.ru">http://zakupki.lsrgroup.ru</a>)</li> <li>Pre-qualification selection and expertise of counterparts</li> <li>Evaluation of product compliance with safety and quality standards</li> <li>Regular inspections of counterparts from the compliance point of view</li> </ul>
<b>Local communities</b>	<ul style="list-style-type: none"> <li>Contribution of the Group to social and economic development of key operations areas</li> <li>Implementation of the Group's activities with due account of interests of local communities</li> <li>Participation of the Group in handling of actual problems of local communities</li> <li>Infrastructure development</li> <li>Restoration of architectural and building art monuments</li> </ul>	<ul style="list-style-type: none"> <li>Cooperation with charitable foundations and other non-profit organisations for realisation of social and charity projects</li> <li>Transfer of funds to regional budgets in support of construction of social infrastructure facilities</li> <li>Organisation of cultural, recreational and entertaining activities for population of operations areas</li> </ul>
<b>Mass media</b>	<ul style="list-style-type: none"> <li>Provision of up-to-date, complete and reliable information on the Group's activities to all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Publication of press releases devoted to key events of the Group</li> <li>Organisation of briefings, presentations and conferences for representatives of mass media</li> <li>Personal meetings and interviews</li> </ul>
<b>Industry community</b>	<ul style="list-style-type: none"> <li>Issues related to functioning and lobbying of interests of the construction industry</li> <li>Contribution of the Group to regional development</li> <li>Development of professions in the construction industry</li> </ul>	<ul style="list-style-type: none"> <li>Membership in industry associations</li> <li>Participation in specialist conferences, workshops and forums</li> <li>Participation in profession-oriented and specialist contests</li> <li>Involvement in the development of professional standards for the construction industry</li> </ul>

## INVESTOR ENGAGEMENT

LSR Group pays great attention to interaction with the current and potential shareholders and investors, who are one of the key stakeholder groups. Effective and open dialogue with investors is an essential component to attract long-term financing, to increase business value and to ensure sustainability.

We use the following mechanisms and tools of interaction in order to maintain constant contact with shareholders and investors:

- Regular publication of reports and results on the Group's website
- Regular publication of material facts on the Group's website, Interfax news portal and in the news feed of London Stock Exchange
- Publication of presentations for investors
- Publication of press releases and news
- Organisation of road shows
- Participation in investment conferences
- Organisation of site visits for investors and analysts
- Cooperation with rating agencies
- The Group's perception studies focused on investors
- Interaction with analysts and proxy advisers.

Interaction of LSR Group with its shareholders and investors is based on the principles of openness and information transparency. We are convinced that timely and reliable coverage of significant news and events related to the Group's operations is essential for strengthening trust and confidence in us as a business partner.

## CREDIT RATINGS OF LSR GROUP

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

## ECONOMIC VALUE GENERATION AND DISTRIBUTION

An important part of our activity is economic value generation and its distribution among various stakeholders of the Group – employees, investors, shareholders, suppliers, government authorities and local communities.

We direct significant efforts to increase of production and economic efficiency of our activities to allow LSR Group consistently generate and increase value for its stakeholders. The achievement of these goals is facilitated by properly designed business strategy of the Group, timely response to external circumstances, risk management and focusing on our competitive advantages.

The reporting year 2017 was not easy for the real estate market. This fact affected the Group's performance. Despite a number of positive trends in Russian economy, recovery processes in the construction industry are still not prominent. The investment activity decrease observed in 2015–2016 caused

Annual, semi-annual and quarterly reports on the operations of LSR Group are published at [www.lsrgroup.ru](http://www.lsrgroup.ru). Operational indicators of the Group are disclosed on a quarterly basis, while consolidated financial statements under IFRS are published semi-annually, following their audit. Disclosure of quarterly, semi-annual or annual financial or operational indicators is accompanied by publication of presentations, press releases and news for investors and shareholders.

The Group cooperates with a wide range of Russian and international investors. Direct interaction of LSR Group with its investors is carried out in the format of group or individual meetings. In addition, representatives of the Group take active part in major investment conferences, where investors can get acquainted with operations and results of the Group and ask any questions of interest. Thus, in 2017, the Group took part in 18 investment conferences organised in the USA, Europe and Russia (e.g. CEEMEA in London, WOOD's Winter Wonderland, EME Conference) Interaction of LSR Group with its shareholders and investors is based on the principles of openness and information transparency. We are convinced that timely and reliable coverage of significant news and events related to the Group's operations is essential for strengthening trust and confidence in us as a business partner.

the decrease in volume of completions. Under these conditions, mortgage lending has become the main driver for maintaining demand for residential real estate that set a new record in Russia in 2017.

Taking into account numerous changes in market conditions, including changes in legislation regulating pre-sales as well as preferences of purchasers, we made efforts to quickly respond to these changes and undertake appropriate measures. In particular, we redesigned a number of our projects with due account of current market requirements. Furthermore, auxiliary spaces were optimised, which allowed us to bring to the market more compact and affordable apartments.

The above listed factors and necessity to introduce changes in current projects caused the decrease in the rate of bringing of new spaces to the market. However, by the end of 2017, as new projects were implemented, we managed to increase sales volumes. In total, 640.000 sq m of net area were sold, and 909.000 sq m were commissioned in 2017. The last indicator is by 15%<sup>1</sup> higher than the correspondent value for 2016.

In addition, thanks to the efforts made, we received the record revenue of 138.494 billion roubles by the end of 2017 and increased it by 30%, if compared to 2016. As a result of 2017, the Group recorded the profit of 15.871 billion roubles that by 73% exceeds the correspondent indicator for year 2016.

<sup>1</sup>Physical indicators are rounded to integer values, whereas changes of indicators in per cent were calculated based on the initial data

Taking into account revenues received in 2017, the generated direct economic value amounted to 143.741 billion roubles. 131.682 billion roubles from this amount were allocated to the Group's key stakeholders. The largest share of cash payments was transferred to the Group's suppliers and contractors as payment for purchased materials, equipment and services (as a part of operating expenses). In addition, a significant part of the generated value was paid as salaries and wages to employees (13.689 billion roubles) and dividends to shareholders (8.036 billion roubles).

## GENERATED AND DISTRIBUTED ECONOMIC VALUE OF LSR GROUP

Indicator	2017. million roubles	Stakeholders Receiving Economic Value
Created direct economic value	143.741	
Revenue	138.494	
Income from financial investments	2.087	
Income from sale of tangible assets	3.160	
<b>Distributed economic value</b>	<b>131.682</b>	
Operating expenses	101.146	Suppliers and contractors
Salaries and wages of employees	13.689	Employees
Other payments and benefits for employees	108	Employees
Payments to capital providers including dividends paid including interest paid to creditors	12.259 8.036 4.223	Shareholders and investors
Payments to the state	4.072	Government authorities
Investments in the society	408	Local communities
<b>Not distributed economic value</b>	<b>12.059</b>	

# HR MANAGEMENT

## KEY NUMERICAL INDICATORS OF 2017

QUANTITY

14 880  
PEOPLE

listed staff quantity

TRAINING

5 500  
TH

employees completed training courses

SALARY

49 173  
RUB

average salary

ALLOCATED

204  
RUB M

amount allocated for implementation of social programmes for employees

## UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

03.



**Ensure healthy lives and promote well-being for all at all ages**

- Health care activities for employees (organisation of mass sports events, discounts for sanatorium-resort therapy, co-financing of voluntary health insurance)
- Ensuring of safe working conditions for employees
- Accident prevention, training in methods of operation promoting health and safety
- Ensuring of decent social and living conditions for workers (purchase of overalls, catering, transportation to remote facilities and other relevant measures)

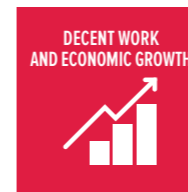
04.



**Ensure inclusive and quality education for all and promote lifelong learning**

- Training and professional development of employees in training centres of the Group
- Implementation of training programmes for managers and specialists in the HR Assessment and Development Centre
- Educational activities within the programme «Growing with LSR»
- Organisation of practical training of students at the Group's facilities

08.



**Promote inclusive and sustainable economic growth, employment and decent work for all**

- Promotion of employment and creation of decent jobs
- Respect of labour rights (including ensuring of safe working conditions, fair salaries and wages)
- Promotion of development of other economic sectors and revitalising of the investment environment in operations areas
- Increase of revenue part of regional budgets



## APPROACH TO HR MANAGEMENT

**Our personnel are one of the main strategic resources that determine the high level of competitiveness of LSR Group. We use up-to-date effective approaches to personnel management to create working conditions that promote the professional and personal development of our employees.**

Attraction, hiring, adaptation, material and non-material motivation, social support, training and development of personnel are the main directions of HR policy of LSR Group. Their implementation allows us to attract competent and highly professional employees and, thus, ensure the high quality of works performed in the companies of the Group.

HR Management in LSR Group is performed at two levels. The HR Directorate functions at the Management Company level. It deals with methodological support of the Group's business units, consolidation of management and administrative information and coordinated approval of budgetary and operational indicators. At the level of business units, HR management is performed by the respective functional units. We strive to implement common approaches in the field of HR and social policies, while allowing individual companies of the Group to build their own company-specific HR management processes.

The following communication activities are implemented within the Group for HR management coordination:

- Uniform standards of HR policy established by local regulations of the company
- Top down approach to standard indicators and budgetary limits for social

policy within the framework of the annual Decree of the CEO «On Social Policy Budgeting» that regulates the determination of budget targets by business units of the Group

- At the end of the year, HR managers meet to summarise the results of the past period and develop plans for the next year
- During the year, HR projects are implemented that affect all enterprises or separate business areas; HR specialists from different enterprises work together in project teams; a common information field is created, knowledge sharing is supported
- Weekly meetings on operational activities are regularly held
- The following reports reflecting the main HR indicators are regularly prepared: weekly, quarterly and annual reports; monthly monitoring of the internal salary market is conducted.

We comply with all the applicable requirements for employment relationships. Moreover, we develop regulations related to those aspects that are not settled by legislation.

### THE KEY REGULATORY DOCUMENTS OF LSR GROUP IN THE FIELD OF HR POLICY AND SOCIAL POLICY ARE THE FOLLOWING:

- Code of Ethics and Business Conduct
- Regulation on personnel selection and appointment to the positions in LSR Group
- Regulation on adaptation of employees in LSR Group
- Decree of the CEO «On Social Policy Budgeting»
- Instructions on corporate awards of LSR Group
- Social policy standard
- Instructions on housing programmes of LSR Group

We strictly monitor the observance of workers' rights in the Group's companies – both mandatory and enshrined in the applicable laws, and voluntarily taken over within employment contracts. In addition, various mechanisms protecting rights and interests of employees are implemented in the Group. Thus, employees are entitled to form trade unions to represent their interests. In 2017, trade unions operated in two companies of the Group (LSR. Cranes – NW, JSC and LSR Stenovye, CJSC). Together with trade unions, we are working on provisions of collective labour agreements in the above listed companies. 15.6% of employees were covered by these collective agreements<sup>1</sup> in 2017.

LSR Group also provides a secure, confidential and accessible way for all requests and complaints to be filed («Trust» hot line). We promptly consider and answer all the incoming appeals.

As part of HR processes automation, in 2017, a pilot project of transition to an updated version of «1C: Payroll and HR management» software was launched in one of business units of the Group. The implemented software will simplify

the maintenance of personnel records and payroll as well as automate HR management functions.

LSR Group distinguishes the following HR management goals and objectives in the short and medium term:

- Introduction of the automated HR management system in all business units of the Group
- Professional development of employees of the Group's business units with the use of staff assessment and development tools
- Development of a motivation programme for employees in order to involve more management levels in implementation of the Group's long-term plans
- Expansion of interaction with profession-oriented educational institutions for the renewal of engineering staff at enterprises of the Group.

<sup>1</sup> From the average number of employees of LSR Group.

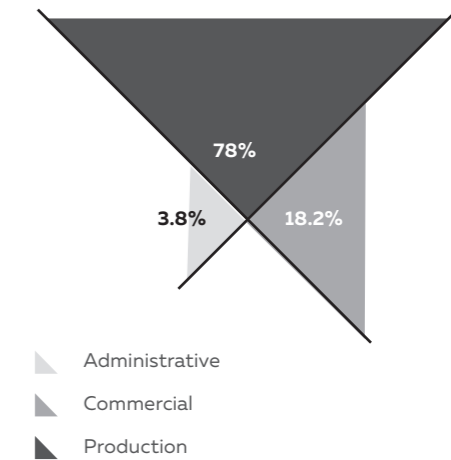
## ORGANISATIONAL PERSONAL STRUCTURE

LSR Group is one of the largest employers in the industry and its operations areas. As of 31 December 2017, the total listed staff quantity of the Group was 14,880 persons, which is by 3.2% less than in 2016. The average listed staff quantity of the Group in 2017 equalled to 14,611 persons (by 1.7% less than in 2016). The decrease in the number of employees of the Group in the reporting period was associated to the decrease in production volumes (the most significant decrease in number occurred in the «Construction» segment and business unit «LSR. Cranes»).

As of the end of 2017, employees of Russian companies of the Group constituted 97.2% of the listed staff quantity. The majority of employees of Russian companies of LSR Group work in the main operations area – St Petersburg and the Leningrad Region.

Due to the specific character of the Group's operations, male employees constitute a share of about 68% of the staff. In addition, in 2017, 78% of the staff of LSR Group belonged to the production personnel category, while the shares of administrative and commercial personnel equalled to 18.2% and 3.8%, respectively.

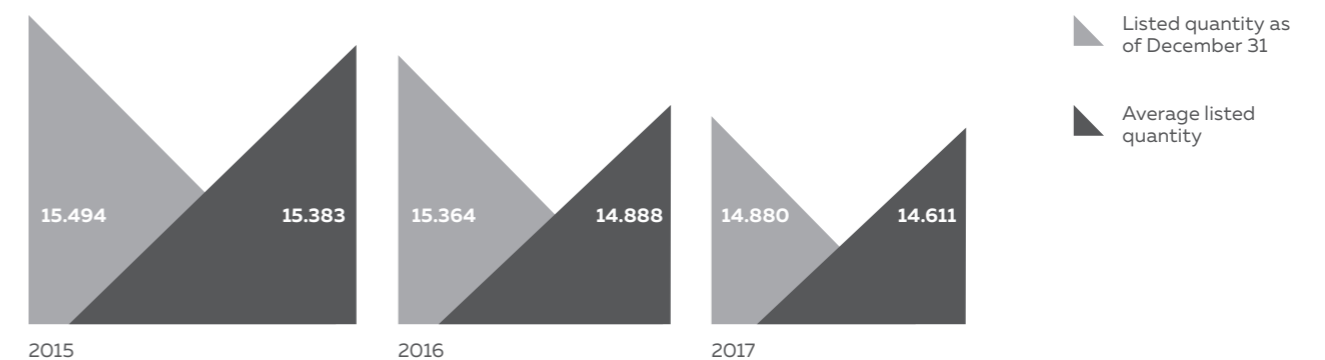
### PERSONAL STRUCTURE OF LSR GROUP BY CATEGORIES IN 2017



### GENDER COMPOSITION OF THE STAFF OF LSR GROUP IN 2017



### QUANTITY OF EMPLOYEES OF LSR GROUP IN 2015–2017, PERSONS



## TRAINING AND DEVELOPMENT

LSR Group works under conditions of constant changes in customer requirements, growing competitiveness of the environment and emerging innovative technologies. All of these things determine the importance of improvement of internal processes and, in particular, high professional level of our employees. Therefore, we pay special attention to training and skill improvement of employees as well as to assessment of their managerial competencies and personal qualities. 164 staff members underwent assessment in 2017. Following its results, each employee received the relevant feedback and discussed possible ways of further development and improvement.

The corporate HR Assessment and Development Centre of LSR Group functions in order to implement training programmes for specialists and line managers.

The corporate staff training and education system includes, without limitation, the following programmes:

- The programme «Effective Operations Tools» is intended for those promising specialists, who are able to become managers in the short-term
- The long-term corporate programme «Competent Manager» for management staff
- The programme «Business Erudite» that includes three training courses («Enterprise Finance and Economics», «Marketing Management», «Data Analysis and Modelling in EXCEL»).

In the context of the task related to managerial skills improvement, we conducted training programmes for line managers in all the companies of the Group in 2017. For example, the following trainings were held in the HR Assessment and Development Centre: «Contemporary Mentoring Tools – Coaching and Storytelling» and «Models of Competences in HR Work».

In addition to programmes conducted by employees of LSR Group, we organise training courses with involvement of external trainers and teachers. Thus, in 2017, teachers of Polytechnic University realised a traditional programme «Fundamentals of Construction», whereas managers and employees of HR departments participated in trainings «Introduction to Agile Technology» and «DTP in PowerPoint».

In addition, licensed centres for trade training operate in individual companies of the Group. Furthermore, employees have the opportunity to receive compensation for training expenses, if it is necessary to complete external educational programmes.

## ASSESSMENT OF EMPLOYEES AND REMUNERATION POLICY

LSR Group has a developed system of material motivation of the personnel that is based on the performance results of employees and ensures the competitive and fair remuneration for their work. We guarantee our employees stable income and timely payment of salaries and wages.

The average salary of employees of LSR Group in 2017 was 49.173 roubles, which is by 4% higher than in 2016. In addition, in all our key operations areas, the initial level of salaries was at or above the minimum wage level established by laws for the respective regions.

To ensure competitiveness of labour remuneration in operations areas, the companies of LSR Group index the payroll fund, if the scheduled targets are met. The upper limit of this indexation is determined by the annual Decree «On Social Policy Budgeting».

The applied remuneration scheme is aimed at the increase of personal motivation of employees for reaching of scheduled performance indicators and business targets by the Group. For trade jobs, a piece-rate payment system is used that directly depends on performance results. Salaries of specialists and line managers consist of a fixed position salary and a variable (motivational) part. The size of this variable part for the above-mentioned categories of employees is determined by functional duties and depends on the results of work for the reporting period. This approach allows linking of the level of salaries to productivity level.

In total, more than 5.500 employees of Russian companies of the Group participated in various training and development programmes in 2017, including more than 1.000 workers instructed in training centres at own enterprises of the Group. The total cost of all training programmes in 2017 amounted to 17.6 million roubles.

There is a special adaptation programme as well as a welcome training aimed at familiarisation of new employees with the corporate history, achievements, basic HR requirements and current social programmes of the Group. A new updated staff adaptation programme was realised in 2017. This programme underwent revision and was implemented at the end of 2016. The main objectives of the programme are the reduction of the time period necessary for new employees to enter the post, and increase of the staff involvement and loyalty.

### EVALUATION OF EMPLOYEES OF COMMERCIAL UNITS

The assessment project for employees of commercial units of five companies constituting the business segment «Building Materials» was realised in spring of 2017. Comprehensive assessment of employees from this business segment included the following measures:

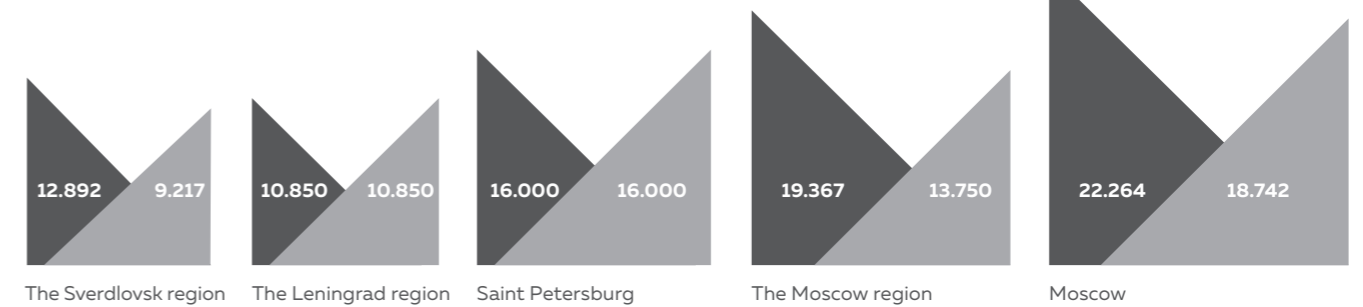
- Interviewing of employees on the sales process, strategic objectives of commercial units, satisfaction with the information system
- Assessment of personal and professional competences of employees, including assessment of their potential
- Evaluation of the salary and wage system.

The aim of the project was to raise awareness and deepen understanding of the specific character of sales among the employees of companies belonging to this particular business segment as well as to improve the relevant business processes. Based on the project results, a programme for efficiency improvement of employees of commercial units was developed. The programme include additional training of the staff in sales of the Group's products, development of automation processes and exchange of best practices between commercial divisions of various companies of the segment.

Managers participate in the motivation programme that provides for an end-of-year fixed fee payment based on the results of work. The amount of remuneration depends on achievement of the Group's strategic goals and individual performance indicators. In 2017, we updated the motivation programme content in terms of criteria for payment of remuneration to managers. The basic indicator for remuneration payment is achievement of the scheduled net profit targets. In future, we are going to expand our motivation programme by including more management levels.

The total quantity of employees, whose remuneration included a variable (motivational) part depending on their performance evaluation, in 2017 reached 417 people (managers, line managers, a certain part of specialist staff).

### SALARY OF ENTRY-LEVEL EMPLOYEES BY REGIONS, 2017, ROUBLES<sup>1</sup>



<sup>1</sup> The entry-level salary is the salary, which is paid to an employee of the lowest category for the full-time work. However, this indicator does not include salaries of apprentices and trainees.

■ Entry-level wage  
■ Minimum wage rate

### CORPORATE AWARDS

Within the programme of non-material motivation, the Group confers corporate awards twice a year, thus encouraging employees to achieve high production results. 258 employees received corporate awards of LSR Group in 2017. Four of them were conferred the highest corporate award – a Golden Pin «The best in LSR».

Employees of LSR Group also receive various departmental, municipal and public awards for achievements in sectors of construction, manufacturing or building materials. Over 300 employees received these awards in 2017.

## SOCIAL POLICY

The key goal of social policy of LSR Group is to create comfortable working environment and promote well-being of employees and their families. It also contributes to motivation of the staff and increase of its efficiency.

Social policy of LSR Group includes the following directions:

- Financial assistance to employees and their families
- Meal remuneration for production personnel
- Creation of proper social and living conditions for workers
- Medical insurance, including emergency medical care, first aid stations at industrial facilities or contractual services of nearby medical institutions, annual vaccination of employees
- Organisation of mass corporate sports events
- Corporate events and programmes for the children of employees
- Organisation of sanatorium-resort therapy
- Housing programme.

The total amount of 204 million roubles was allocated by LSR Group for the implementation of social programmes in 2017. In particular, the amount intended for material assistance to employees equalled to 15 million roubles.

Employees are informed of all the available social support forms through the internal communication system. New employees receive the relevant information in the course of welcome trainings, whereas information posters located at the facilities are addressed to those employees who do not have a computer.

### HOUSING PROGRAMME OF LSR GROUP

Within the framework of housing programme, employees can acquire ownership of housing at the facilities of the Group that are currently under construction or already finished. In addition, we allow for a discount depending on the employment period. This programme is much-in-demand among our personnel: 170 employees took advantage of discounts for housing purchase in 2017.

### PROGRAMME «GROWING WITH LSR»

«Growing with LSR» is a corporate social programme aimed at building trade popularisation, rising of awareness of the Group's brand, increasing of personnel involvement and participation in corporate events. We realise the programme «Growing with LSR» for various target groups: employees and their children; customers, partners and their children; participants of charitable projects of the Group; students of institutions of higher and secondary professional education. The programme runs in all regions of presence of LSR Group.

We held 25 events for children of employees within the programme in 2017: cultural and educational creativity contests; sightseeing tours for employees and their children; workshops. In addition, we organise sightseeing and entertainment programmes at industrial enterprises and facilities under construction for partners and customers of LSR Group.

The amount of 5.5 million roubles was allocated for the project «Growing with LSR» in 2017.

Moreover, LSR Group actively cooperates with students and graduates of industry-specific educational institutions. In this context, we organise introductory tours around our industrial facilities, tell students about the construction industry and answer their questions, organise work experience internship for students. In such a way, we are going to attract more young engineers for employment in the companies of the Group.

# OCCUPATIONAL HEALTH AND SAFETY

## KEY NUMERICAL INDICATORS OF 2017

LTIFR

1.31

lost time injury frequency rate

SR

51.45

injury severity rate

## UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

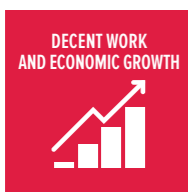
03.



### Ensure healthy lives and promote well-being for all at all ages

- Health care activities for employees (organisation of mass sports events, discounts for sanatorium-resort therapy, co-financing of voluntary health insurance)
- Ensuring of safe working conditions for employees
- Accident prevention, training in methods of operation promoting health and safety
- Ensuring of decent social and living conditions for workers (purchase of overalls, catering, transportation to remote facilities and other relevant measures)

08.



### Promote inclusive and sustainable economic growth, employment and decent work for all

- Promotion of employment and creation of decent jobs
- Respect of labour rights (including ensuring of safe working conditions, fair salaries and wages)
- Promotion of development of other economic sectors and revitalising of the investment environment in operations areas
- Increase of revenue part of regional budgets

## APPROACH TO OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

When carrying out production activities, we strive to ensure safe working conditions for our employees. Protection of life and health of employees is the top priority of the Group.

Direct management of occupational health and safety in LSR Group is performed at the level of business units. Their managers are responsible for ensuring of safe working conditions for employees. There are specialised subdivisions – services or departments – for occupational health and safety in each business unit of the Group.

Activities of these specialised subdivisions are regulated by local regulations «On Occupational Health and Safety Management System» and «On Organisation and Implementation of Operational Control of Compliance with Industrial Safety Requirements at Hazardous Production Facilities». The above-mentioned regulations are developed according to the legal requirements of the Russian Federation<sup>1</sup>.

Business units of LSR Group operating in the construction industry are subject to industry agreements for construction and building materials manufacturing that include, without limitation, provisions establishing requirements for occupational health and safety. The following basic requirements are applied:

- Creation of committees (commissions) for occupational health
- Proper functioning of the specialised occupational health subdivisions (services)
- Timely performance of special evaluation surveys of working conditions
- Training of employees in occupational health and safety
- Supply of employees with the necessary personal protection equipment
- Equipment of workplaces in accordance with the safety requirements
- Adherence to temperature operating modes
- Ensuring the required conditions for medical examinations.

<sup>1</sup> RF Labour Code, Federal Law «On Industrial Safety at Hazardous Production Facilities», SanPINs (Sanitary Regulations and Standards), industry-specific documents on occupational health at construction and industrial facilities.

We constantly work on improvement of procedures and methods of occupational health and industrial safety management in order to reduce the quantity of accidents related to manufacturing and construction activities. Thus, a three-step compliance monitoring system in the field of labour protection, occupational and fire safety requirements was implemented in all the companies of the Group in the second half of year 2017. The System is focused on compliance control tightening in relation to the employees of LSR Group at all levels and contractors' employees performing works the Group for the purpose of safety compliance monitoring at production sites, including flow chart development. Quarterly reports on compliance with occupational health and safety requirements are prepared and submitted for consideration to the Executive Board.

In particular, in 2017, we extended the responsibility of managers at all levels for concealing of information related to accidents and injuries received by employees. Moreover, all labour contracts concluded in the second half of year 2017 and on incorporate provisions regulating the contractors' liability in the form of penalties for the violation of requirements in the field of occupational health, industrial and fire safety. These measures are focused on promotion of careful maintenance of safe working conditions by officials contributing to the decrease of occurrence rate of industrial injuries.

## KEY PRIORITIES OF LSR GROUP IN THE FIELD OF OCCUPATIONAL HEALTH AND SAFETY

- Priority of employees' life and health over the Group's operational results
- Responsibility of managers for ensuring safe working conditions
- Responsibility of the Group's employees and contractors for their own safety and safety of third parties; step-in right in case of non-compliance with safety requirements
- Involvement of all employees of the Group in activities focused on decrease of the number of accidents, rate of occupational injuries and occupational diseases
- Priority of preventive measures in all aspects of occupational health, industrial and fire safety

## COMPLAINT SUBMISSION PROCEDURE ON OCCUPATIONAL HEALTH AND SAFETY ISSUES

There are various procedures for processing of complaints and appeals of all the parties involved in production activities in LSR Group. These procedures allow us to promptly respond to any emerging issues in the field of safe working conditions for employees and protection of health of population in operations areas of the Group.

The labour disputes commission of each correspondent business unit considers problems related to compliance with labour legislation, including those in the field of safe working conditions.

Dedicated commissions for occupational health and safety operate at the level of specialised divisions of the Group's companies. These commissions include authorised work force representatives, who submit for consideration written and oral complaints related to occupational health and safety.

Employees of the Group's companies can address complaints and questions via hot telephone lines of specialised divisions. We inform all our employees on available complaint submission procedures at the moment of their employment in the Group, during introductory briefings. Moreover, hot line telephone numbers are indicated on information stands of individual business units of the Group.

## RESULTS OF ACTIVITIES IN THE FIELD OF OCCUPATIONAL HEALTH AND SAFETY IN 2017

Every year, we conduct activities aimed at the accident rate reduction in the course of operational activities of the Group. Thus, the following measures were undertaken by the Group in 2017:

- Safety culture development through changing of the managers' attitude to occupational health and safety issues at all levels (workers' compliance with occupational safety requirements is taken into account when calculating bonuses and a variable part of wages).
- Ensuring of the required competence level of employees in the field of occupational health and safety through the system of briefings and internal training. All the employees getting permits for the performance of hazardous works are briefed on safety issues. Persons responsible for the correspondent briefings are appointed in each business unit. Additional non-scheduled briefings are to be conducted in case of accidents.
- Estimation and analysis of risks related to occurrence of dangerous situations capable to affect life and health of people, process reliability and integrity of industrial facilities of the Group.
- Audit and special estimation surveys of working conditions based on the correspondent orders for individual business units with subsequent publication of obtained results.
- Provision of information to employees and their training in safe methods of operation that ensure health protection.
- Improvement of the HR management system, including that through effective time management and stress management as well as regular trainings on these topics conducted by the HR Assessment and Development Centre.

- Identification and assessment of the actual and potential impact of the Group's activities on life and health of people, including that through careful preparation of pre-project and project documentation and necessary expert reports.
- Quick and effective response to all incidents and accidents in close cooperation with specialised organisations and authorised state bodies.
- Development and implementation of measures for occupational health of workers, prevention and reduction of general rate of occupational diseases, including medical examinations of employees, organisation of occupational health days and sports events, involvement of employees in sports completions, bike races and other activities aimed at healthy lifestyle development.
- Consistent monitoring of technical conditions of the Group's production facilities by specialised commissions for business units. The relevant protocols are issued based on the results of these technical condition surveys including recommendations either for further operation of production facilities or their decommissioning.

36 accidents took place in the companies of the Group in 2017. Unfortunately, despite all the measures undertaken in the field of occupational health and safety, five people died as a result of these accidents. Each accident was thoroughly investigated by dedicated commissions with the purpose of the determination of the causes. Furthermore, the relevant measures were implemented to prevent the occurrence of similar situations in future. Human factor, including the non-compliance of employees with the safety requirements and

their negligence in the course of works performance, is still the main reason of industrial injuries and fatal accidents.

The employees involved in accidents in 2017 received less serious injuries and spent less days in the hospital: the severity rate decreased from 67.46 in 2016 to 51.45 in 2017.

## INJURY RATES IN THE GROUP FOR 2015-2017<sup>1</sup>

Indicator	2015	2016	2017
General number of industrial accidents, pcs.	33	30	36
Number of injured in industrial accidents (the total quantity of injured persons, including):			
Number of fatal accidents (FA), persons	1	2	5
Number of lost time injuries (LTI), persons	32	28	31
Lost time accident frequency rate (LTAFR, per 1,000 persons)	2.26	2.13	2.66
Injury rate (IR, per 1,000,000 man-hours)	1.20	1.09	1.53
Lost time injury frequency rate (LTIFR, per 1,000,000 man-hours)	1.16	1.02	1.31
Injury severity rate (SR)	63.84	67.46	51.45
Absentee rate (AR, in%)	0.01	0.01	0.01
Lost day rate (LDR, per 1,000,000 man-hours)	99.29	92.11	89.96

<sup>1</sup> Injury rate values are indicated for Russian entities of LSR Group

## SHORT-TERM AND MID-TERM GOALS AND OBJECTIVES IN THE FIELD OF OCCUPATIONAL HEALTH AND SAFETY

For further improvement of our occupational health and safety system, we are going to focus our efforts on the following areas:

- Introduction and use of advanced technologies that contribute to prevention of occupational injuries and diseases, fire-hazardous and emergency situations
- Development, implementation and use of a safe work motivation system
- Determination and monitoring of areas of responsibility and accountability in the field of safe work performance at industrial facilities and motivation of safety compliance outside of working hours in relation to all employees, contractors and other parties involved in the Group's operations

- Organisation of effective cooperation with government authorities, scientific and research organisations, community and other stakeholders with the purpose of experience exchange and mutual informing on activities related to occupational health and safety as well as development and implementation of updated standards and rules
- Analysis and evaluation of the Group's performance in the field of occupational health and safety with a view to further improvement of the management system.

# OPERATIONS AREA DEVELOPMENT

## KEY NUMERICAL INDICATORS OF 2017

INVESTMENTS

# 407.7

RUB M

investments allocated for the implementation of social and charitable projects and construction of social infrastructure facilities

CHARITABLE FOUNDATION «CHILDREN WAIT»

# 250

MORE THAN

ORPHANS

have found loving families thanks to the cooperation of the Group with the charitable foundation «Children Wait»

## UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

01.

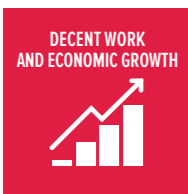


NO POVERTY

**End poverty in all its forms everywhere**

- Creation of workplaces in operations areas and guarantee of stable income
- Implementation of social programmes for employees (including discounts for housing purchase)
- Support to socially vulnerable population groups (including large and low-income families)
- Assistance in the development, social adaptation and vocational guidance of children and adolescents

08.



DECENT WORK AND ECONOMIC GROWTH

**Promote inclusive and sustainable economic growth, employment and decent work for all**

- Promotion of employment and creation of decent jobs
- Respect of labour rights (including ensuring of safe working conditions, fair salaries and wages)
- Promotion of development of other economic sectors and revitalising of the investment environment in operations areas
- Increase of revenue part of regional budgets

### Our vision

Our activity is based on the following vision: the aim of business development is not only profit-making but the benefit of society too. It is important for us to generate new values not only in the form of dividends for shareholders but also for the country and its population.

11.



SUSTAINABLE CITIES AND COMMUNITIES

**Make cities inclusive, safe, resilient and sustainable**

- Mitigation of negative environmental impact through reducing of «per unit» indicators of pollutant emissions

## CONTRIBUTION TO SOCIAL AND ECONOMIC DEVELOPMENT OF REGIONS

As one of the major developers in the country, LSR Group has a deep understanding of the character and scale of influence of its operational activities on the social and economic development of operations areas. Moreover, the effective achievement of strategic objectives of the Group directly depends on the stable and strong growth of regions as well as on the favourable social and cultural environment in those cities, where the Group's products are sold. Therefore, we pay special attention to activities focused on the improvement of social situation in our operations areas and contribution to growth of local economic capacity.

The housing market is the main market for the Group's products, which bears an extra social load. Availability of affordable and comfortable housing affects the standard of living of population, demographic situation and the HR potential of regions.

The construction industry plays an important role in regional economic development. The development of the Group's companies fosters employment of economically active population, increases revenues of

regional budgets and leads to revitalisation of a large number of other sectors of economy. Thus, in addition to related industries, the development of banking and insurance services accompanying housing construction and regional infrastructure development (including transport, communication, and education) is observed.

Enterprises of LSR Group do not only make their contribution as large employers and taxpayers, but actively address high-priority development tasks in operations areas through allocation of funds for social and charitable programmes and participation in landscaping, construction and reconstruction of important social facilities.

We make considerable annual contributions to budgets of our operations areas allocating funds for construction of social infrastructure facilities. In 2017, LSR Group continued to implement its large-scale financial assistance programme aimed at purchase of necessary equipment and repair of pre-school institutions, secondary schools as well as sports, cultural and health care facilities.

Total investments of LSR Group in social and charitable projects and construction of social infrastructure facilities in reporting year 2017 amounted to 407 million roubles.

Consequently, the contribution of LSR Group to the social and economic development of regions was expressed in:

- Promotion of employment in operations areas
- Increase of revenue for regional budgets through the fulfilment of tax and other obligations

## APPROACH TO CHARITY

Charitable projects constitute a significant part of our social activity. Every year, LSR Group takes active part in projects aimed at the improvement of social environment and life quality of socially vulnerable people in key operations areas of the Group: Saint Petersburg and the Leningrad Region, Moscow and the Moscow Region, Yekaterinburg and the Sverdlovsk Region.

When selecting or developing charitable projects, we focus on strategic priorities of our core business and corporate culture values. In addition, employees of the Group are to a great extent involved in implementation of these projects, acting as volunteers and contributing to addressing of socially significant problems in operations areas.

Social activity of LSR Group is centralised at the Management Company level. Charity projects are supervised by the Head of the Group's representative office in Moscow. Detailed reports devoted to the results of charitable programmes are prepared on the annual basis and submitted to the Chief Executive Officer. In addition, the PR Directorate of the Management Company provides active operational support to projects under implementation.

Charitable activity of LSR Group is focused on the following points:

### 1. Care of children, including:

- Orphans and children deprived of parental care
- Children with disabilities
- Critically ill children.

### 2. Support of socially vulnerable citizens, including:

- Large and low-income families
- Unmarried mothers
- Adults with disabilities.

### 3. Revival and preservation of cultural heritage sites of the country, including:

- Contribution to restoration of architectural and building art monuments
- Support of cultural events.

- Revitalisation of investment processes and other economic sectors
- Contribution to improvement of life quality of population through the construction of comfortable and affordable housing
- Support of social and charitable projects
- Investment in social infrastructure development and urban beautification in the operation areas.

Our daily activities serve as the solid foundation for the contemporary society development, including strong economy, high employment level and favourable social and cultural environment.

It is noteworthy that the two first areas of interest are closely interconnected. Many of our projects are aimed at rendering of comprehensive assistance to both children themselves and families who have adopted children. Moreover, we also contribute to realisation of the child care task supporting socially vulnerable citizens like large families or unmarried mothers.

Despite the fact that the primary target group of our child support activities mainly consists of children and families exposed to difficult life circumstances, a number of our projects cover the whole age category of children and adolescents in the regions of our presence (including the children of our employees).

We use a variety of contemporary approaches and procedures when developing and implementing our charitable programmes. Thus, LSR Group actively cooperates with non-profit organisations rendering them consulting services or developing joint charitable projects. Furthermore, we allocate both financial and non-financial resources for the implementation of projects (e.g. supply required building materials, if necessary).

### KEY PRINCIPLES OF CHARITY POLICY OF LSR GROUP:

- Target orientation
- Effectiveness
- Consistency

## KEY PROJECTS AND RESULTS

### CARE FOR CHILDREN AND SUPPORT OF SOCIALLY VULNERABLE CITIZENS

#### SUPPORT OF SAINT PETERSBURG ASSOCIATION OF PUBLIC UNIONS OF PARENTS OF HANDICAPPED CHILDREN

Since 2012, LSR Group has supported a number of programmes of Saint Petersburg Association of Public Unions of Parents of Handicapped Children (GAOORDI), which help people with disabilities to be independent in the open society. Key programmes and events within the framework of this cooperation are the following:

1. Programme «Helping children in the Leningrad region». Charitable assistance rendered to disabled children under this programme is aimed at their treatment and rehabilitation, purchase of medicines and rehabilitation equipment.
2. Programme «Support of young people with intellectual disabilities in day care groups». The day care group is every day attended by 25 young disabled people over the age of 18. The development of communication skills and independence as well as social adaptation is the constant focus of daily training in the group.
3. International training course for neurologists «School of Myology». The training course was held in October 2017. It was taught by the leading experts in the field of neuromuscular diseases from Russia and foreign lecturers

representing research institutes of France, Germany and Finland. 133 persons representing various Russian regions and foreign countries completed the course of the «School of Myology» in 2017.

4. Creative and Entertaining Activities. Every year, LSR Group helps to organise various festivals, concerts and creative workshops for disabled people. The following events were organised in 2017:

- Festival of Fine Arts for Disabled People «Tsarskoselskiy Vernissage»
- Charity event «Together for Children», including a workshop in painting for children with musculoskeletal disorders and a culinary workshop for children with phenylketonuria
- Festival «Thanksgiving Day» with interesting concerts, entertaining programmes, and sweet presents.

### ASSISTED LIVING HOUSE FOR DISABLED PEOPLE

Fruitful cooperation of GAOORDI, LSR Group and the RF Council on Social Policy under a unique project is particularly worth of mentioning. It is aimed at the development of a new living model for handicapped people.

In 2017, LSR Group presented to GAOORDI a social facility, the first assisted living house in Russia for handicapped people of working age. The formal opening of the facility took place on 8 June 2017 with the participation of Georgiy Poltavchenko, the Governor of Saint Petersburg; Andrey Molchanov, the CEO of LSR Group; Margarita Urmancheyeva, the president of GAOORDI. A long-held dream of many parents, who are bringing up their disabled children since early childhood, came true on this day. Now their grown-up children will be able to live independently in a new, cosy and bright house of «Novaya Okhta» residential complex.

A new three-storey building is already inhabited by 19 residents – people with developmental disabilities aged 25 to 42 years. Every resident has a fully furnished separate room

with all conveniences. Their comfortable living is assisted by 23 social workers. The building houses everything necessary for people with developmental disorders. It gave joy and hope to young people and peace and confidence to their parents!

On the basis of «Novaya Okhta» house GAOORDI implements its project «Independent Life». The first Assisted Living Service was created within the project. Employees of the service render the residents 24-hour social assistance, help in cooking, shopping and cleaning up. Currently, 22 specialists are employed in the Service. In 2017, the project of GAOORDI «Independent Life» received the support of the RF President in the form of a grant for the civil society development allocated by the Foundation for Presidential Grants.

## CARE FOR CHILDREN AND SUPPORT OF SOCIALLY VULNERABLE CITIZENS

### COOPERATION WITH THE CHARITABLE FOUNDATION «CHILDREN WAIT»

We support the charitable foundation «Children Wait» since 2010. We render organisational and consultative assistance, develop and realise joint projects. The main tasks of this collaboration are the following: Assistance in the adoption of orphans, training of future adopting parents, psychological support and comprehensive assistance to foster families.

In reporting year 2017, together with the charitable foundation «Children Wait», we continued our work aimed at updating and seeding of the database of adopter portals and websites launched after 2008. LSR Group helps to systematise and regularly update information on orphanage houses and institutionalised children. More than 250 children found loving families in 2017, and over the whole period of the project implementation their number reached 2,885.

We do not only support basic activities of charitable foundations, but also help in realisation of several individual projects:

1. The project «Nursing Care» is focused on the comprehensive support of those orphans who have been hospitalised in various medical and preventive treatment institutions of Saint Petersburg. Every year, over 1.000 children without parental support receive medical treatment in hospitals.
2. The project «Mother Stands by You» is aimed at the support of young unmarried mothers with small children, who have graduated from orphanage houses and subsequently appeared in difficult life circumstances. Within the framework of this project, LSR Group provides housing to mothers in need until the moment of recovery from the crisis situation, ensures psychological and consultative assistance. 6 mothers (including 2 pregnant women) and 4 children lived in the «house for mothers» in 2017.
3. The project «Life Named Family» is focused on training in the school for adopting parents and support of successful foster families. Various activities for children are regularly organised, including work of creative interest groups, classes held by tutors, speech and language therapists and psychologists. 501 persons applied to School during 2 years of its activity. 218 families came there in 2017. 269 foster families are currently supported.

### COOPERATION WITH THE CHARITABLE FOUNDATION «PARENTS' BRIDGE»

LSR Group started to support the charitable foundation «Parents' Bridge» in 2004. Specialists of the foundation help children deprived of parental support to find a new family. This partnership is one of the longest and most effective projects among our charitable activities.

Together with the foundation, we have developed and are currently implementing a programme aimed at the assistance and support of families, who want to take care of children deprived of parental care, including children with physical disabilities. That is why the programme was called «Angels with Broken Wings». LSR Group renders material support to adopted and guarded children as well as allocates funds for work of psychologists and social workers accompanying these families.

The following results were gained within the programme «Angels with Broken Wings» in 2017:

- 20 orphans and children without parental support, inmates of orphanage houses, have found their families (10 of these children have special needs)

- Training of 20 families (potential adopting parents) was completed in two schools (130 hours)

- Complex professional support of 105 families currently upbringing 128 adopted children was organised, including constant psychological assistance focused on strengthening of families and prevention of secondary child abandonment

- 82 adopted children from 61 families received charitable material support.

### INCLUSIVE ACTIVITY CENTRES FOR CHILDREN

#### «Dobrotorium» in Moscow

The activity centre for children called «Dobrotorium» has operated in Odintsovo since May 2016. It works with disabled children and those who just need care and communication. Young students are able to choose between painting, drawing, composition, sculpture, art history, poetry, robotics, modelling, creative and theatre studios and many other activities.

#### «Arteria» in Saint Petersburg

In order to socialise and expand the circle of contacts of disabled children, thanks to support of LSR Group, the Centre for Creative Cooperation «Arteria» was opened in 2013. Disabled children visit it together with ordinary children. LSR Group presented to the Centre new premises in the residential complex «Residence on Suvorovskiy» in 2015. Currently, about 130 children attend drawing and English classes, a literary club, a theatre hobby group and other creative groups in the «Arteria» centre.

The Centre received a licence for conducting of educational activities for children and adults in 2017. Now, the specialists of the Centre are able not only to propose various activities for children, but also organise training courses in different areas with the subsequent issue of certificates based on training results.

#### «Razvitiye» in Yekaterinburg

«Razvitiye» Centre for Creative Cooperation opened its doors in May 2017 in the residential complex «Flagman» erected by LSR Group. Activities of the Centre are focused on shaping of self-perception of talented children together with psychological and pedagogical support and assistance in professional self-determination.

Currently, «Razvitiye» centre is completely equipped with state-of-the-art appliances and devices. Specialists in creative development, a speech and language therapist, a psychologist and a neuropsychologist are employed there. The Centre helps to socialise more than 320 children and adolescents with special needs as well as children from large families.

## REVIVAL AND PRESERVATION OF CULTURAL HERITAGE SITES OF THE COUNTRY

### PRESERVATION OF ARCHITECTURAL MONUMENTS

For many years, LSR Group has been actively involved in projects aimed at the development of national culture, preservation of historical and artistic treasures.

The Group continued to make contribution to restoration of architectural and building art monuments in 2017. The Group provided necessary building materials, took part in the financing of art and finishing works, engineering equipment. Our contribution to the restoration and maintenance of the following facilities is worth of special note:

- Arkhangelskoye country-house museum
- Church of Xenia of St Petersburg
- Tsarskoye Selo museum and reserve
- Feodorovsky Sovereign's Cathedral in Pushkino
- Church of St. Andrew the Apostle.

Thanks to LSR Group, St. Sergius of Radonezh Charitable Foundation for Cultural Heritage Preservation is able to implement a number of projects. Let us mention the restoration of buildings of Moscow Theological Academy in the Trinity Lavra of St. Sergius and church in Abramtsevo country-house estate as an example.

### SUPPORT OF CULTURAL PROJECTS

Contemporary art development and support of cultural projects are another focus point of LSR Group. Various cultural events regularly take place in ZILART-hall thanks to support of LSR Group.

Sizeable contribution is made by LSR Group to implementation of new educational projects. The following projects received the most significant support in 2017:

- World Association of Russian Press (WARP) foundation
- Saint Petersburg State University (Atrium construction for the library)
- Institute of Space Research of the Russian Academy of Sciences (scientific conference «Space – 60 Years on the Road of Discoveries»)
- Kolyada Theatre (festival of contemporary drama in the Urals)
- Assistance in issue of the album devoted to the 85th anniversary of the artist O. Kudryashov.

In addition, LSR Group regularly allocates monetary funds for organisation of musical concerts for socially vulnerable population groups and disabled people. Concerts are attended by children from orphanage houses, boarding schools, large and low-income families as well as by students of music schools. Concerts organised with the support of LSR Group were many times recognised as the most interesting and informative projects for children in the cultural capital.

# ENVIRONMENTAL MANAGEMENT

## KEY NUMERICAL INDICATORS OF 2017

GASOLINE

-28.6%

reduction in the consumption of gasoline

DIESEL

-6.3%

reduction in the consumption of diesel

ENERGY

-10.9%

energy consumption decrease

06.

CLEAN WATER AND SANITATION



**Ensure access to water and sanitation for all**

• Reducing of the impact on surface water sources due to high-quality wastewater treatment

07.

AFFORDABLE AND CLEAN ENERGY



**Ensure access to affordable, reliable, sustainable and modern energy for all**

• Consistent decrease of power consumption

## UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

09.

INDUSTRY, INNOVATION AND INFRASTRUCTURE



**Build resilient infrastructure, promote sustainable industrialisation and foster innovation**

• Use of modern energy-efficient and water-efficient technologies in the construction of new real estate facilities

11.

SUSTAINABLE CITIES AND COMMUNITIES



**Make cities inclusive, safe, resilient and sustainable**

• Mitigation of negative environmental impact through reducing of «per unit» indicators of pollutant emissions

12.

RESPONSIBLE CONSUMPTION AND PRODUCTION



**Ensure sustainable consumption and production patterns**

• Rational use of natural resources  
• Reuse of generated wastes

14.

LIFE UNDER WATER



**Conserve and sustainably use the oceans, seas and marine resources**

• Rational use of resources of the water area of the Gulf of Finland during the operation, implementation of a wide range of compensatory measures for biodiversity conservation

15.

LIFE ON LAND



**Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss**

• Measures for the reclamation of territories involved in production activities  
• Preservation and enhancement of biological diversity, in particular, fish resources



## APPROACH TO ENVIRONMENTAL MANAGEMENT

LSR Group operates in several regions of Russia with various environmental conditions and is aware of its responsibility to society regarding the preservation of ecological well-being in these regions. We strive to implement systemic approach to management of environmental protection issues. Our key priorities in the field of environmental management are minimisation of negative impact and strict environmental compliance.

One of the key strategic guidelines in operational activities of the Group is using of state-of-the-art and environmentally friendly technologies. This aspect is taken into account in the course of the development of our investment programme. We carefully consider energy efficiency and environmental safety along with cost and productivity factors, when making decisions on purchases of new equipment.

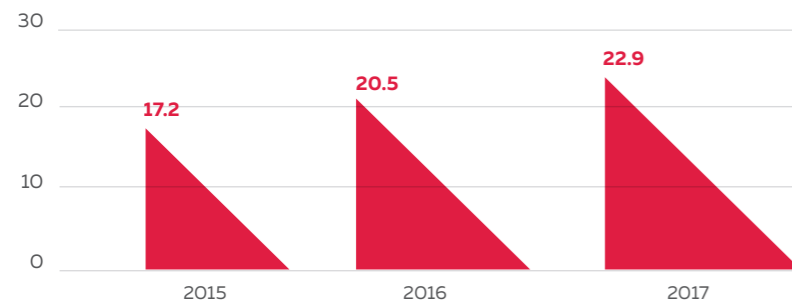
General principles of environmental safety are established by the Charters of individual business units. In addition, activities of business units in the field of environmental management are governed by regulations on divisions responsible for environmental management issues and other internal regulatory documents that determine individual aspects of environmental management. For example, instructions on waste handling at production sites, regulations on production unit inspections for environmental compliance, etc.

LSR Group is a diversified company that operates in various segments of the construction business. Due to specific features of operations, each business unit of the Group has its own structural subdivision responsible for environmental management or dedicated functional positions introduced for the purpose of environmental management.

The Group's approach to environmental management depending on the environmental impact type is described further in the text of this section. The below listed quantitative indicators on environmental management are referred solely to the business unit LSR. Aggregates and Ready-mix Concrete (except for the data on energy consumption and energy efficiency indicated for the whole Group). The business unit LSR. Aggregates and Ready-mix Concrete is a major business asset<sup>1</sup> of the Group involved in extraction of various building materials. Due to the activity type, this business unit has a significant impact on the environment in terms of pollutant emission into the atmospheric air, use of water resources and waste generation.

The function of environmental management in the business unit LSR. Aggregates and Ready-mix Concrete is performed by the Ecology and Environmental Management Team. Its activities are guided by the relevant Regulations. Monetary funds are annually allocated for the implementation of measures on environmental protection. Over the past few years, the volume of investments in environmental management in this business unit has been steadily increasing.

### COSTS ALLOCATED FOR ENVIRONMENTAL MANAGEMENT ISSUES BY LSR. AGGREGATES AND READY-MIX CONCRETE, 2015-2017, MILLION ROUBLES



<sup>1</sup> Quantitative indicators for the business unit LSR. Aggregates and Ready-mix Concrete include data for LSR-Bazovye, CJSC and Landshaft, CJSC (Landshaft, CJSC did not conduct any works related to the environmental impact, e.g. water intake and discharge, emissions in the atmospheric air or waste generation, in 2017).

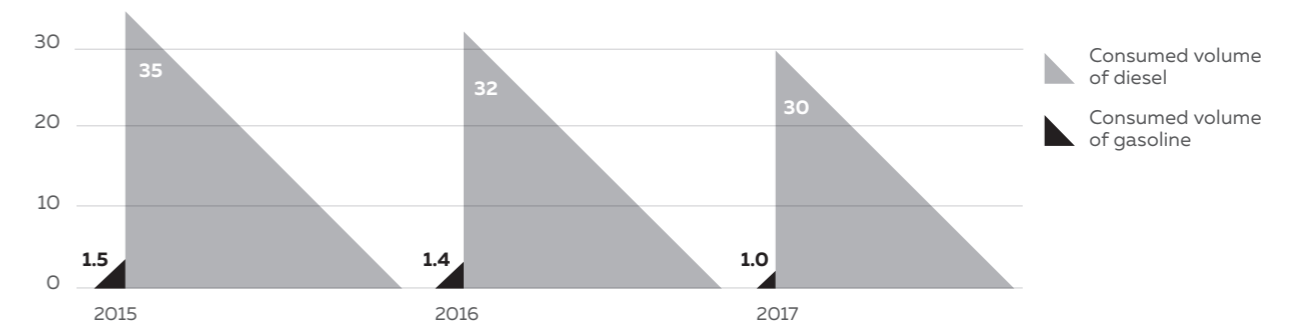
## ENERGY CONSUMPTION AND ENERGY EFFICIENCY

The Group pays considerable attention to energy consumption and energy efficiency monitoring. Offices of Chief Engineer and Chief Power Supervisor are responsible for monitoring exercised in these areas in the companies of the Group.

Gasoline and diesel fuel are the main fuel types used by the Group. Since 2015, there has been a steady trend towards the decrease of consumption of these resources, the major share of which is consumed by motor vehicles. The reduction in the consumed volume of gasoline and diesel fuel is primarily related

to our ongoing work on the vehicle fleet modernisation and optimisation of transportation routes. In addition, companies of the Group consume natural gas, fuel oil and coal as energy resources for heating.

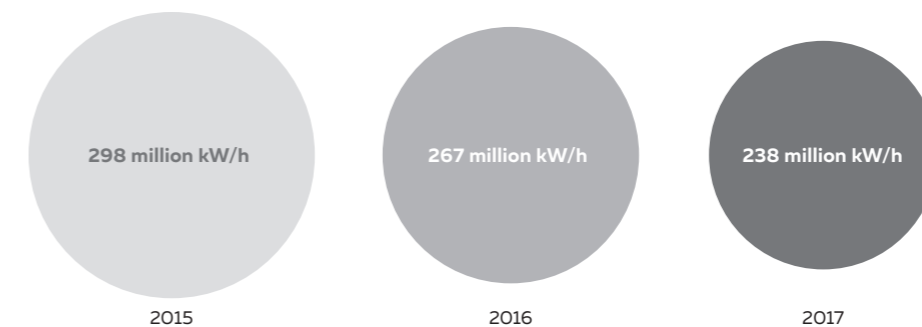
### CONSUMPTION OF FUEL RESOURCES FROM NON-RENEWABLE SOURCES FOR THE WHOLE GROUP, 2015-2017, ITEMISED BY FUEL TYPES, MILLION LITRES



In addition to decrease in fuel consumption, the Group aims to reduce electric power consumption. Thus, we managed to reduce this figure by more than 10% in 2017, if compared to 2016.

According to Business Leaders RAEX-600 ranking (The Energy Efficiency ranking of the largest Russian companies) LSR Group had been ranked 1st as of the end 2017<sup>1</sup>

### ELECTRIC POWER CONSUMPTION FOR THE WHOLE GROUP, 2015-2017, MILLION KW/H



<sup>1</sup> Read more here <https://raexpert.ru/ratings/expert400/2018/part3/>

## REDUCTION OF LOAD ON WATER BODIES

The Group's enterprises strive to use water resources as efficiently as possible and minimise the load on water bodies by reducing water intake, wastewater quality improvement and volume decrease, implementation of preventive and compensatory measures focused on flora and fauna of water bodies.

### WATER WITHDRAWAL

An important goal in terms of water use is the reduction of water withdrawal volume from natural sources. Due to the fact that a number of the Group's companies are not able to ensure water reuse or recycling, our specialists pay special attention to searching for new process solutions allowing optimisation of water consumption processes.

Total water withdrawal performed in the reporting year by the business unit LSR. Aggregates and Ready-mix Concrete showed an increase by 13%, if compared to 2016. This fact is determined by the increase in production volumes.

The share of about 93% of the total water volume is withdrawn by the business unit from surface water bodies. About 7% are accounted for municipal water supply systems.

### WASTEWATER

The Group makes considerable efforts to ensure compliance of discharged wastewater with qualitative and quantitative standards established for use

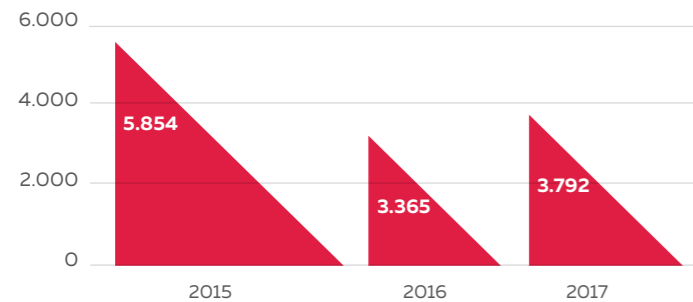
of water bodies. To achieve this goal, water control measures are developed and implemented, condition of water bodies is constantly monitored, and in-process control of water with-drawing facilities is performed.

Special attention is paid to careful wastewater treatment prior to its discharge into water bodies. The total water discharge volume for the business unit LSR. Aggregates and Ready-mix Concrete in 2017 reached 5.8 million cu m. This discharged volume was constituted by wastewater classified as purified to the standard established level.

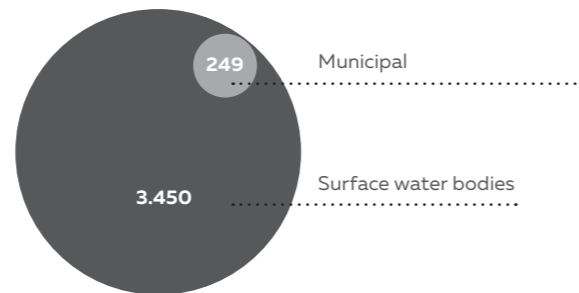
### CONSERVATION OF HABITATS AND BIODIVERSITY OF WATER BODIES

The Group performs works related to extraction of building materials, including those from underwater deposits. In this regard, priority activities of the Group's enterprises in the field of environmental management are fishery monitoring and minimisation of the negative impact on the habitat of aquatic flora and fauna. Where such an impact is unavoidable, compensatory measures aimed at restoration and increase of aquatic biological resources in water bodies are undertaken.

TOTAL WATER WITHDRAWAL VOLUME IN 2015-2017 FOR LSR. AGGREGATES AND READY-MIX CONCRETE, THOUSAND CU M



WATER VOLUMES WITHDRAWN FOR INDUSTRIAL NEEDS BY LSR. AGGREGATES AND READY-MIX CONCRETE IN 2017, ITEMISED BY WATER SOURCES, THOUSAND CU M



### CONSERVATION OF BIODIVERSITY OF THE GULF OF FINLAND

The Gulf is an object of both federal and international importance. Consequently, special requirements of maritime legislation are imposed on production activities in the water area of this water body.

For example, complete work discontinuation during the fish spawning period and obligations related to restoration of biological resources are included in the list of obligatory requirements. Compensatory measures are implemented on a regular basis under the supervision of representatives of Rosrybolovstvo (the RF Federal Agency for Fishery) with the involvement of specialised fish farms. Since 2012, over 340.000 of fries of trout, whitefish and lake char as well as 2.6 million pike-perch larvae were planted in the water area of the Gulf of Finland.

MORE THAN  
**34.9**  
RUB M

was allocated for compensatory measures in the Gulf of Finland during the last five years

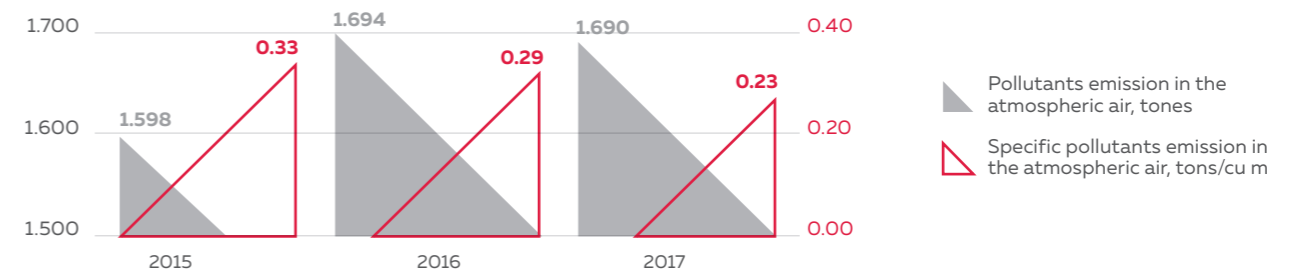
## IMPACT ON THE ATMOSPHERIC AIR

The Group's enterprises make significant efforts to reduce the emission of pollutants into the atmosphere. Moreover, they conduct the constant monitoring of compliance with the established standards for pollutant emissions. The obtained results are regularly reflected in Technical Reports on Control of Pollutant Emission in the Atmosphere. The Group's manufacturing facilities have modern pollution control and cleaning equipment, which is subject to regular preventive inspections.

The effectiveness of activities aimed at the reduction of load on the atmospheric air is also confirmed by the annual systematic reduction of the unit-specific indicator of pollutant emissions. Thus, this reduction exceeded 20% in the reporting period.

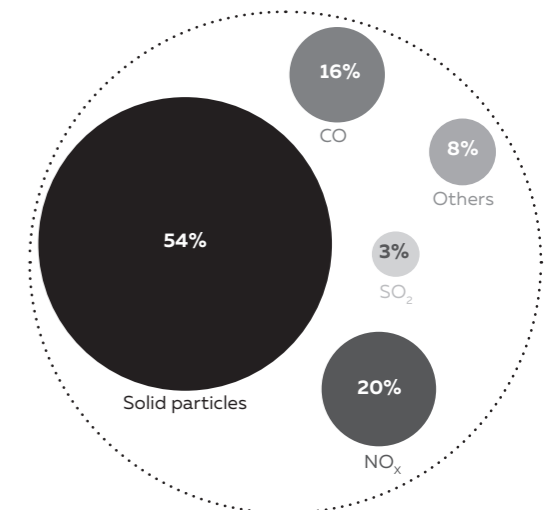
Due to measures undertaken for emission minimisation in 2017, the business unit LSR. Aggregates and Ready-mix Concrete managed to retain the absolute emission volume at the level of the previous year, despite the increase in the number of production facilities<sup>1</sup>.

ABSOLUTE AND SPECIFIC AMOUNT OF POLLUTANT EMISSIONS IN THE AIR, 2015-2017, LSR. AGGREGATES AND READY-MIX CONCRETE<sup>2</sup>



More than half of the total emissions volume in LSR. Aggregates and Ready-mix Concrete in 2017 were solid particles, primary sources of which are mining sites and processing facilities for mineral products. About 20% of emissions accounted for nitrogen oxides and slightly more than 15% -for carbon oxides. Sulphur dioxides constituted less than 3% of the emissions volume.

AMOUNT OF POLLUTANT EMISSIONS IN THE AIR IN 2017, LSR. AGGREGATES AND READY-MIX CONCRETE



Substance	Amount of Pollutant Emissions, tons
Solid particles	906.0
NO <sub>x</sub>	324.7
CO	274.0
Others	135.6
SO <sub>2</sub>	49.9

<sup>1</sup> Data for 2017 include deposits of Styrusuddenskiye Banki, Styrusudden-Kyrönniemi (Vyborg district) and a deposit on the isle Seskar (Kingiseppskiy district), which were excluded from the reports in 2015 and 2016.

<sup>2</sup> Specific amount of emissions is calculated as the ratio of gross emissions per year in tons and the number of finished products per year in cubic metres.

## WASTE MANAGEMENT

Enterprises of the Group are scrupulous about waste management in the course of their production activities. Waste generation standards and waste disposal limits are developed and approved individually for each production site. In addition, each production facility is subject to regular preventive inspections, during which the responsible specialists monitor the compliance of waste accumulation sites with sanitary and environmental standards.

### WASTE GENERATION

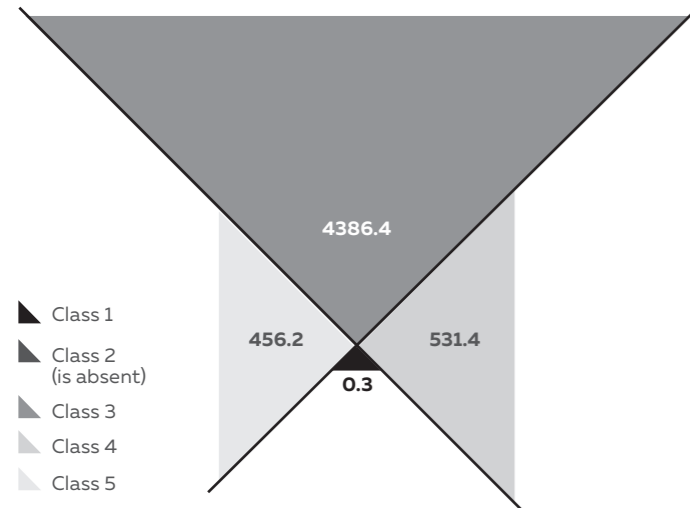
Waste generation is an integral part of operation of the Group's production facilities. The company is focused on the minimisation of the waste generation volume and searches for solutions allowing the reuse of various types of waste.

However, the increase in the waste generation volume was registered in LSR. Aggregates and Ready-mix Concrete in 2017. This growth during the

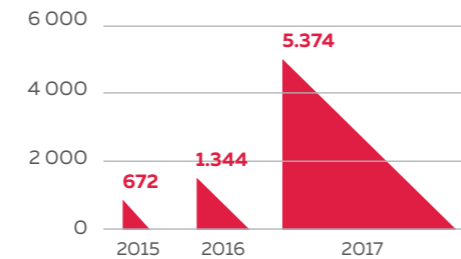
reporting period was to a greater extent determined by the increased production volumes and updating of approaches to the development of regulatory documents.

By morphological composition, the major part (about 80%) of wastes generated by enterprises of the business unit in 2017 can be classified as belonging to hazard class 3 and are basically represented by oily bilge waters generated during operation of vessels. Slightly less than 20% of wastes are constituted by almost equal shares of wastes belonging to hazard classes 4 and 5, which are low-hazardous and non-hazardous for the environment. The business unit practically does not generate high-hazardous wastes. Thus, wastes of hazard class 1 amounted to less than one hundredth of a per cent in the total generation volume, whereas wastes of hazard class 2 were completely absent.

WASTE GENERATION VOLUME, 2017, LSR. AGGREGATES AND READY-MIX CONCRETE, ITEMISED BY WASTE CLASSES, TONS



TOTAL WASTE GENERATION VOLUME IN 2015-2017, LSR. AGGREGATES AND READY-MIX CONCRETE, TONS

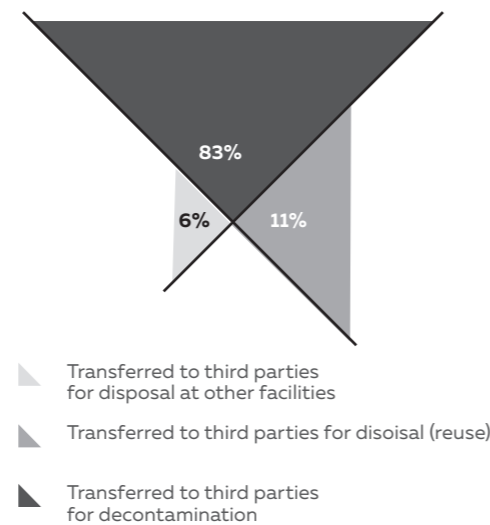


### WASTE HANDLING

The Group is focused on efficient waste handling. Therefore, a significant share of wastes is transferred to the product category at the initial production stage. For example, certificates of conformity are issued for waste engine oil and run-down batteries to allow their subsequent sale to consumers.

Other waste types that cannot be recycled or reused in the production cycle are transferred to third parties for further decontamination and disposal. Since the bulk of generated wastes are classified as belonging to hazard class 3 (moderately hazardous), most of the wastes transferred to third parties are subject to decontamination.

WAYS OF WASTE HANDLING, 2017, LSR. AGGREGATES AND READY-MIX CONCRETE



## GREEN CONSTRUCTION

The Group is focused both on the compliance with the requirements for efficient environmental management in the course of operational activities and with the highest environmental safety standards of real estate under construction. We are convinced that the introduction of state-of-the-art technologies can reduce the impact on the environment occurred during operation of buildings as well as contribute to life quality improvement in new houses.

In future periods, LSR Group is going to further improve approaches to environmental management and main environmental performance indicators

of the Group's companies. It is scheduled to maintain emerging positive trends for the majority of environmental indicators through the increased efficiency of internal control, environmental compliance assurance and further aligning of operations with the best world practices in the construction industry.

### GREEN RESIDENTIAL COMPLEX NEVA HAUS

LSR Group continued to implement the project of construction of the eco-friendly residential complex NEVA HAUS in Saint Petersburg in 2017. The facility design provides for the use of the best engineering solutions and state-of-the-art trends of «green» construction.

It is supposed to operate the new residential complex with the use of resource-saving and energy-efficient technologies. In particular, the car parking is equipped with stations for charging of electric vehicles, the innovative system for waste collection and recycling is developed, closed thermal system is used for heating, a 5-stage cleaning system ensures high-quality water supply.

Moreover, the unique character of this project is also contributed to the fact that NEVA HAUS is the first residential complex in Saint Petersburg that was officially certified as an energy-efficient, water-efficient and environmentally friendly facility according to the GREEN ZOOM system. All the required procedures were completed in 2017, and a Golden Certificate of Compliance was received.



# ANNEXES

## ABBREVIATIONS AND CONVENTIONS

GAOORDI	Saint Petersburg Association of Public Unions of Parents of Handicapped Children (Городская ассоциация общественных объединений родителей детей-инвалидов, ГАООРДИ)
CEO	Chief Executive Officer
The Group/LSR Group	LSR Group, Public Joint Stock Company (PJSC) and its subsidiaries
The Group's companies	LSR Group, Public Joint Stock Company (PJSC) and its subsidiaries
MWR	Minimum wage rate
IFRS	International Financial Reporting Standards
NPO	Non-profit organisation
NOZA	National Association of Housing Developers
UN	United Nations Organization
OHS	Occupational health and safety
The Report	Sustainability Report 2017 of LSR Group
The reporting period	From 1 <sup>st</sup> January 2017 to 31 <sup>st</sup> December 2017
GRI Standards	Sustainability Reporting Standards of Global Reporting Initiative (GRI)
AR	Absence rate
FA	Number of fatal accidents

GRI	Global Reporting Initiative
LDR	Lost day rate
LTI	Number of lost time injuries
LTAFR	Lost time accident frequency rate
LTIFR	Lost time injury frequency rate
SR	Injury severity rate

# GRI CONTENT INDEX

Indicator	Link/Comment	Page
<b>GRI 102 GENERAL DISCLOSURES</b>		
<b>1. ORGANISATIONAL PROFILE</b>		
GRI 102-1 Name of the organisation	About the Report	8
GRI 102-2 Activities, brands, products, and services	LSR Group Today	13
GRI 102-3 Location of headquarters	Location of Operations	12
GRI 102-4 Location of operations	Location of Operations	12
GRI 102-5 Ownership and legal form	About the Report	8
GRI 102-6 Markets served	Location of Operations	12
GRI 102-7 Scale of the organisation	Organisational Personal Structure Annual Performance Report 2017 of LSR Group, PJSC	33
GRI 102-8 Information on employees and other workers	Comment: 99,1% <sup>1</sup> of employees were employed under permanent employment contracts; 96,7% <sup>2</sup> of employees worked on a full-time basis in 2017	
GRI 102-9 Supply chain	Procurement	24-25
GRI 102-10 Significant changes to the organisation and its supply chain	Procurement	24-25
GRI 102-11 Precautionary Principle or approach	Approach to Environmental Management. Comment: The Group applies the Precautionary Principle within the framework of its risk management activities and in the course time-planning of activities related to environmental management.	48
GRI 102-12 External initiatives	Membership of Industry Associations and External Initiatives	20
GRI 102-13 Membership of associations	Membership of Industry Associations and External Initiatives	20
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GRI 102-14 Statement from senior decision-maker	Appeal of the Chairman of the Board	10-11
GRI 102-15 Key impacts, risks, and opportunities	Risk Management in the Field of Sustainable Development	22

<sup>1</sup> From the quantity of personnel as of 31 December 2017.  
<sup>2</sup> From the average staff quantity.

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GRI 102-20 Executive level responsibility for economic, environmental, and social topics	Corporate Organisation for Sustainability Management	19
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GRI 102-29 Identifying and managing economic, environmental, and social impacts	Corporate Organisation for Sustainability Management	19
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GRI 102-41 Collective bargaining agreements	Approach to HR Management	32
GRI 102-42 Identifying and selecting stakeholders	Stakeholder Engagement	26-28
GRI 102-43 Approach to stakeholder engagement	Stakeholder Engagement	26-28
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GRI 102-46 Defining report content and topic boundaries	About the Report	8
GRI 102-47 List of material topics	About the Report	8
GRI 102-48 Restatements of information	Comment: Not applicable, since the Report is prepared for the first time	
GRI 102-49 Changes in reporting	Comment: Not applicable, since the Report is prepared for the first time	
GRI 102-50 Reporting period	About the Report	8
GRI 102-51 Date of most recent report	Comment: Not applicable, since the Report is prepared for the first time	
GRI 102-52 Reporting cycle	About the Report	8
GRI 102-53 Contact point for questions regarding the report	Contact details	62
GRI 102-54 Claims of reporting in accordance with the GRI Standards	About the Report	8
GRI 102-55 GRI content index	GRI Content Index	56-61
GRI 102-56 External assurance	Comment: Was not performed	

## MATERIAL TOPICS

### GRI 200 ECONOMIC TOPICS

#### GRI 201 ECONOMIC PERFORMANCE

GRI 103 Management approach	Economic Value Generation and Distribution	28-29
GRI 201-1 Direct economic value generated and distributed	Economic Value Generation and Distribution	28-29
GRI 201-4 Financial assistance received from government	Comment: Financial assistance received from government authorities of the Russian Federation in 2017 amounted to 641,716 thousand roubles	

Indicator	Link/Comment	Page
<b>GRI 203 INDIRECT ECONOMIC IMPACTS</b>		
GRI 103 Management approach	Contribution to Social and Economic Development of Regions	41-42
GRI 203-1 Infrastructure investments and services supported	Contribution to Social and Economic Development of Regions Key Projects and Results	41-42 43-45
GRI 203-2 Significant indirect economic impacts	Contribution to Social and Economic Development of Regions	41-42
<b>GRI 205 ANTI-CORRUPTION</b>		
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GRI 205-1 Operations assessed for risks related to corruption	Ethics and Anti-corruption Management	23-24
GRI 205-2 Communication and training about anti-corruption policies and procedures	Ethics and Anti-corruption Management	23-24
GRI 205-3 Confirmed incidents of corruption and actions taken	Ethics and Anti-corruption Management	23-24
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<b>GRI 302 ENERGY</b>		
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#### GRI 303 WATER

GRI 103 Management approach	Approach to Environmental Management	48
GRI 303-1 Water withdrawal by source	Redaction of Load on Water Bodies	50
GRI 303-2 Management of water discharge-related impacts	Comment: Bolshaya Turukhtannaya harbour is used as a water source. It is classified as belonging to the first category by its commercial fishing importance	
GRI 303-3 Water recycled and reused	Redaction of Load on Water Bodies	50

Indicator	Link/Comment	Page
<b>GRI 305 EMISSIONS</b>		
GRI 103 Management approach	Approach to Environmental Management	48
GRI 305-6 Emissions of ozone-depleting substances (ODS)	Comment: No emissions of ODS were registered for the business unit LSR. Aggregates and Ready-mix Concrete during the reporting period	
GRI 305-7 Nitrogen oxides NOx, sulphur oxides SOx and other significant air emissions	Impact on the Atmospheric Air	51
<b>GRI 306 EFFLUENTS AND WASTE</b>		
GRI 103 Management approach	Approach to Environmental Management	48
GRI 306-1 Water discharge by quality and destination	Reduction of Load on Water Bodies Comment: Water discharge is preformed into the Krasnenkaya river and nameless streams of Saint Petersburg and the Leningrad region	50
GRI 306-2 Waste by type and disposal method	Waste Management	52
GRI 306-3 Significant spills	Comment: No significant spills were registered for the business unit LSR. Aggregates and Ready-mix Concrete during the reporting period	
GRI 306-4 Transport of hazardous waste	Comment: LSR. Aggregates and Ready-mix Concrete does not perform transportation, import, export or processing of wastes classified as hazardous according to Annexes I, II, III and IV to Basel Convention	
GRI 306-5 Water bodies affected by water discharges and/or run-off	Comment: Water bodies of the highest commercial fishing importance (the Tosna and the Neva rivers), water bodies of the first commercial fishing importance (the Molotok lake, the Krasnenkaya river, channel between the lakes Kuznechnoye and Maloye Borovskoye, nameless stream of the Galdkiy bay in the Ladozhskoye lake), water bodies of the second commercial fishing importance (the Bezymianny stream and nameless feeder of the Slavyanka River)	
<b>GRI 307 ENVIRONMENTAL COMPLIANCE</b>		
GRI 103 Management approach	Approach to Environmental Management	48
GRI 307-1 Non-compliance with environmental laws and regulations	Comment: No violations of were registered for the business unit LSR. Aggregates and Ready-mix Concrete in 2017, therefore no significant fines were imposed on the Group during the reporting period	

Indicator	Link/Comment	Page
<b>GRI 400 SOCIAL TOPICS</b>		
<b>GRI 403 OCCUPATIONAL HEALTH AND SAFETY</b>		
GRI 103 Management approach	Approach to Occupational Health and Safety Management	37
GRI 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Results of Activities in the Field of Occupational Health and Safety in 2017	38-39
GRI 403-4 Health and safety topics covered in formal agreements with trade unions	Approach to Occupational Health and Safety Management	37
<b>GRI 404 TRAINING AND EDUCATION</b>		
GRI 103 Management approach	Training and Development	34
GRI 404-2 Programmes for upgrading employee skills and transition assistance programmes	Training and Development	34
GRI 404-3 Percentage of employees receiving regular performance and career development reviews	Assessment of Employees and Remuneration Policy	34
<b>GRI 413 LOCAL COMMUNITIES</b>		
GRI 103 Management approach	Contribution to Social and Economic Development of Regions Approach to Charity	41-42
GRI 413-1 Operations with local community engagement, impact assessments, and development programmes	Approach to Charity Key Projects and Results	42 43-45

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