



# LSR Group

**Growing before your eyes**

**INVESTOR PRESENTATION**

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# Agenda

## Review of 1H 2008 Financial Results

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## Market Update

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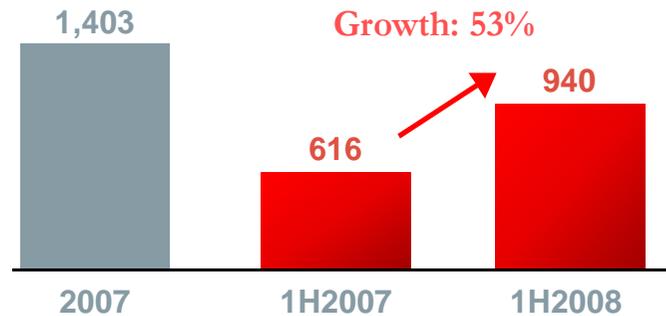
# Key Financials

	1H2007	1H2008		2007
	US\$ m	US\$ m	Change, %	US\$ m
<b>Revenues</b>	<b>616</b>	<b>940</b>	<b>53%</b>	<b>1,403</b>
<b>EBITDA</b>	<b>133</b>	<b>243</b>	<b>83%</b>	<b>309</b>
EBITDA %	22%	26%		22%
<b>Normalised operating profit</b>	<b>109</b>	<b>205</b>	<b>89%</b>	<b>248</b>
Normalised operating profit %	18%	22%		18%
<b>Normalised net profit</b>	<b>63</b>	<b>124</b>	<b>96%</b>	<b>120</b>
Changes in fair value of investment property (non-cash item)	193	(159)		315
Net profit	209	3	(99%)	359
Normalised earnings per ordinary share	0.69 USD	1.33 USD		1.23 USD
Earnings per ordinary share	2.43 USD	(0.04) USD		3.98 USD
Amortisation and depreciation	24	37	56%	61
Capitalised capital expenditure	100	202	102%	255
Gross cash flow	137	243	77%	308
Total debt	689	1,417		984
Net debt	653	1,094		629
Net debt/ EBITDA	3.1	2.6		2.0

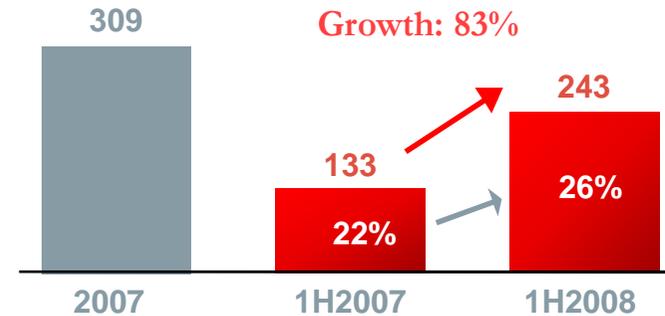
Gross cash flow represents Operating profit before changes in working capital and provisions  
 Net debt /EBITDA calculated on annualised basis

# Key Financials

## Sales (US\$m)

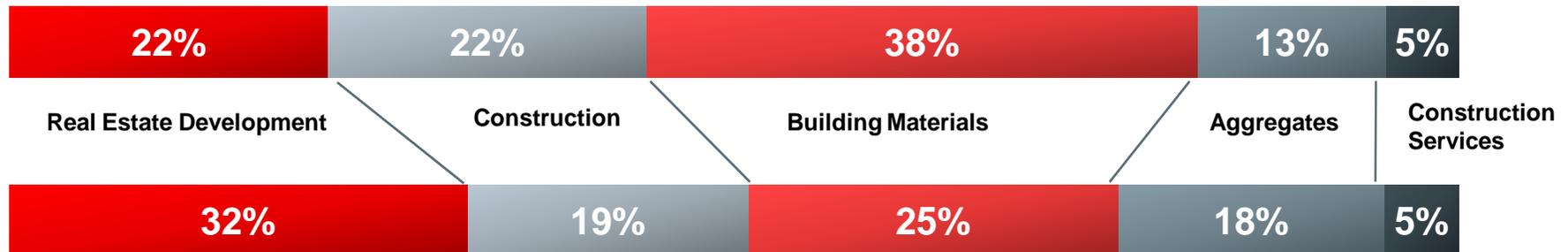


## EBITDA (US\$m)/EBITDA Margin (%)



## Sales and EBITDA Breakdown

### 1H2008 Sales breakdown



### 1H2008 EBITDA breakdown

Note: Divisional breakdown of Sales and EBITDA shown before intercompany eliminations and unallocated amounts  
Revenue and EBITDA of Commercial Real Estate segment accounted for less than 1% of the Group's revenue and EBITDA

# Real Estate Development

## Sales (US\$m)



## EBITDA (US\$m)/EBITDA Margin (%)



## Key Financials (US\$m)

	Total*			Elite Real Estate			Business Class and Mass Market Real Estate			Gated Communities			Real Estate in Moscow		
	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change
Sales volume (th sq m transferred to customers)	108	59	(45%)	27	13	(52%)	69	43	(38%)	0.2	0.7	250%	12	2.3	(81%)
Sales revenue	221	236	7%	73	101	38%	86	105	22%	0.4	1	158%	58	19	(66%)
EBITDA	43	89	109%	17	47	173%	14	31	126%	0.3	(0.4)	(268%)	14	11	(16%)
EBITDA%	19%	38%	-	24%	46%	-	16%	29%	-	58%	-	-	23%	58%	-
Gain on revaluation of investment property	151	(145)	-	151	(145)	-	-	-	-	-	-	-	-	-	-

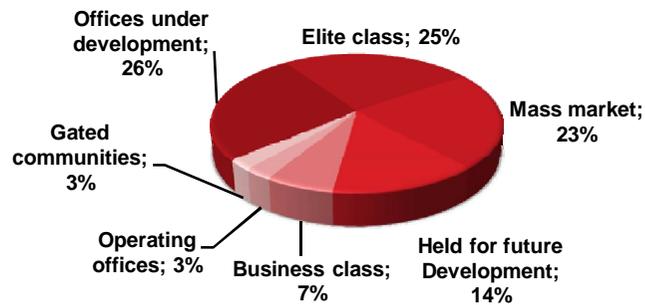
(\*) After intersegment eliminations and sundry operations

- Strong growth in completions and transfers of apartments to customers
- Past years price growth reflected in IFRS financials for 2007
- Revaluation loss is mainly driven by rephasing the major office development project

# Real Estate Portfolio Valuation

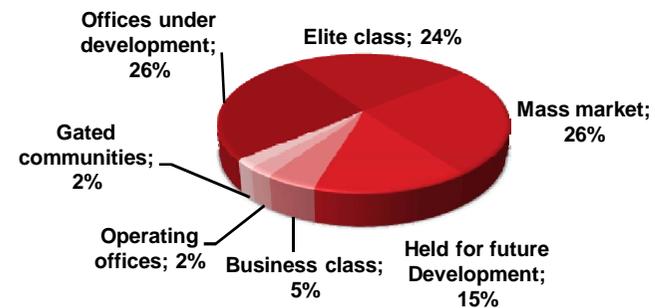
## Market Value by Segment

31 December 2007



US\$ 5.7Bn

30 June 2008



US\$ 6.6Bn

### Major drivers of revaluation:

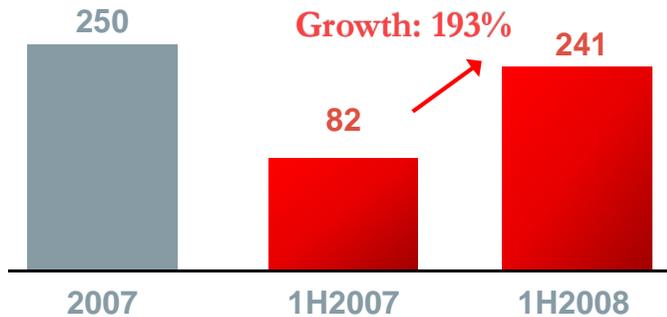
- Additions of new projects into portfolio (market value of US493 m)
- Increase of prices for residential real estate in St Petersburg
- Investments into development of existing projects
- Revised construction budget for the number of projects
- Rephasing of Electric City office development project
- More conservative valuation assumptions for office real estate

Source: DTZ Valuation Reports

Full valuation report and summary fact sheet are available in our website at: [www.lsrgroup.ru/results](http://www.lsrgroup.ru/results)

# Construction

Sales (US\$m)



EBITDA (US\$m)/EBITDA Margin (%)



Key Financials (US\$m)

	1H2007	1H2008	Change
Sales volume (th sq m)	145	216	49%
Sales revenue	82	241	193%
EBITDA	1	55	4,994%
EBITDA%	1%	23%	-

- Strong growth in sales volumes and prices
- Acquisition of “Betfor” factory in Yekaterinburg contributed to 1H 2008 results: Revenue US\$ 27m and EBITDA US\$ 7m

# Commercial Real Estate

## Sales (US\$m)



## EBITDA (US\$m)/EBITDA Margin (%)



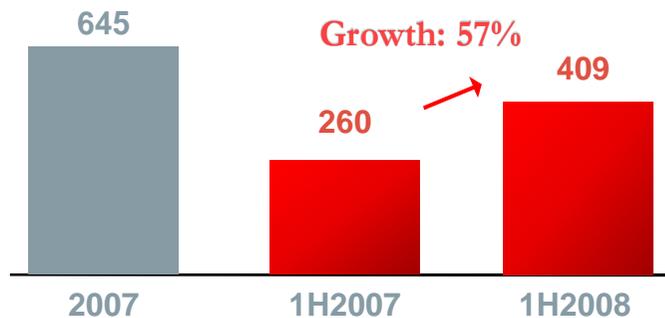
## Key Financials (US\$m)

	1H2007	1H2008	Change
Net lettable area at 31 Dec (th sq m)	5	11	120%
Sales revenue	1	4	308%
EBITDA	0.5	2	303%
EBITDA%	51%	50%	-
Gain (loss) on revaluation of investment property	42	(15)	135%

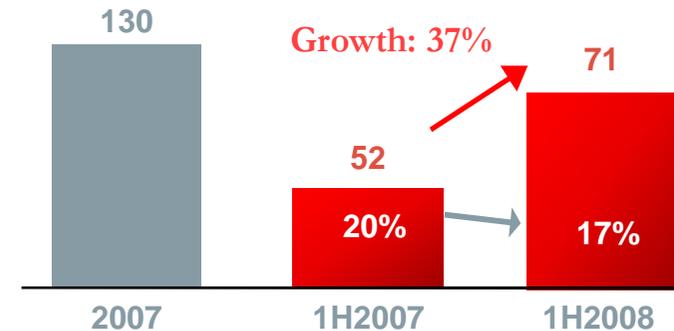
- Three existing office centers are fully let
- Substantial development pipeline of A class office centers in prime locations

# Building Materials

Sales (US\$m)



EBITDA (US\$m)/EBITDA Margin (%)



Key Financials (US\$m)

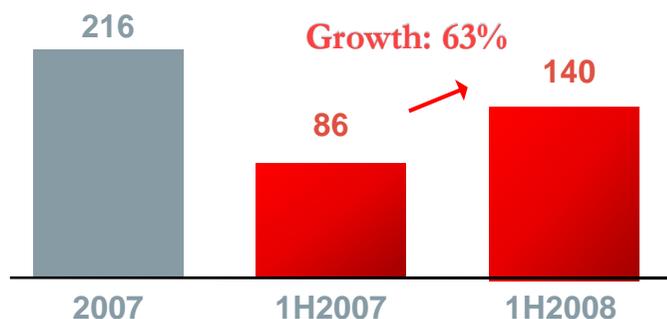
	Total*			Reinforced Concrete			Ready-Mix Concrete			Bricks			Aerated Concrete		
	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change
Sales volume	n/a	n/a	n/a	260 th m <sup>3</sup>	288 th m <sup>3</sup>	11%	698 th m <sup>3</sup>	757 th m <sup>3</sup>	8%	134 mn units	147 mn units	10%	313 th m <sup>3</sup>	429 th m <sup>3</sup>	37%
Sales revenue	260	409	57%	86	130	51%	72	119	65%	41	61	50%	30	53	77%
EBITDA	52	71	37%	19	29	50%	7	11	46%	11	21	94%	9	9	(8%)
EBITDA%	20%	17%	-	22%	22%	-	10%	9%	-	27%	34%	-	31%	16%	-

(\*) After intersegment eliminations and sundry operations

- Strong revenue and EBITDA growth driven by high demand
- Aerated Concrete margins decreased due to extra sales of 3<sup>rd</sup> party product via distribution contracts and poor performance of Baltic countries market
- Continued modernization of equipment to improve efficiency

# Aggregates

## Sales (US\$m)



## EBITDA (US\$m)/EBITDA Margin (%)



## Key Financials (US\$m)

	Total*			Sand			Crushed Granite		
	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change
Sales volume (th m <sup>3</sup> )	n/a	n/a	n/a	5,397	7,264	35%	1,832	2,507	37%
Sales revenue	86	140	63%	45	69	53%	41	71	74%
EBITDA	30	50	68%	21	30	45%	10	20	109%
EBITDA%	35%	36%	-	45%	43%	-	24%	29%	-

(\*) After intersegment eliminations

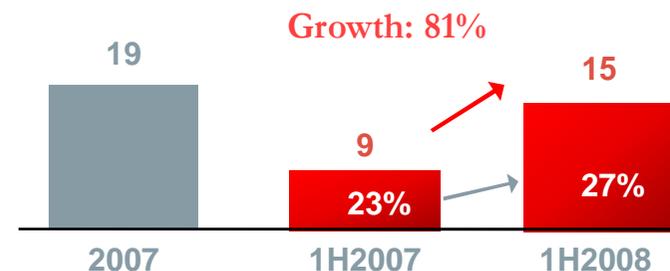
- Strong financial results driven by high demand
- New crushed granite deposit "Zabolotnoe" launched in 2Q 2008

# Construction Services

## Sales (US\$m)



## EBITDA (US\$m)/EBITDA Margin (%)



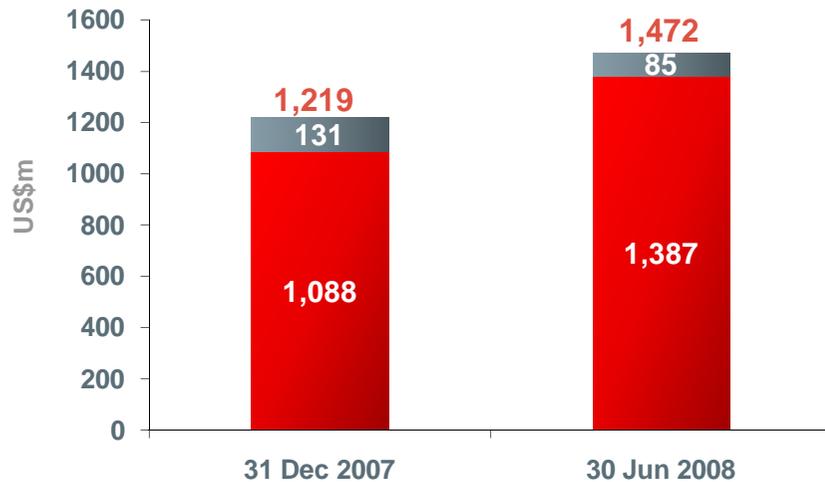
## Key Financials (US\$m)

	Total			Tower Cranes Services			Transportation			Pile foundation construction		
	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change	1H2007	1H2008	Change
Sales revenue	36	58	61%	16	26	65%	9	9	(1%)	11	23	109%
EBITDA	9	15	81%	7	12	72%	1	1	(26%)	0.4	3	548%
EBITDA%	23%	27%	-	44%	46%	-	12%	9%	-	4%	12%	-

- Continued successful development of tower cranes services business in Moscow and St Petersburg
- Tower cranes fleet expanded from 193 to 208 units
- Transportation BU is under ongoing reorganisation

# Inventory and Capex

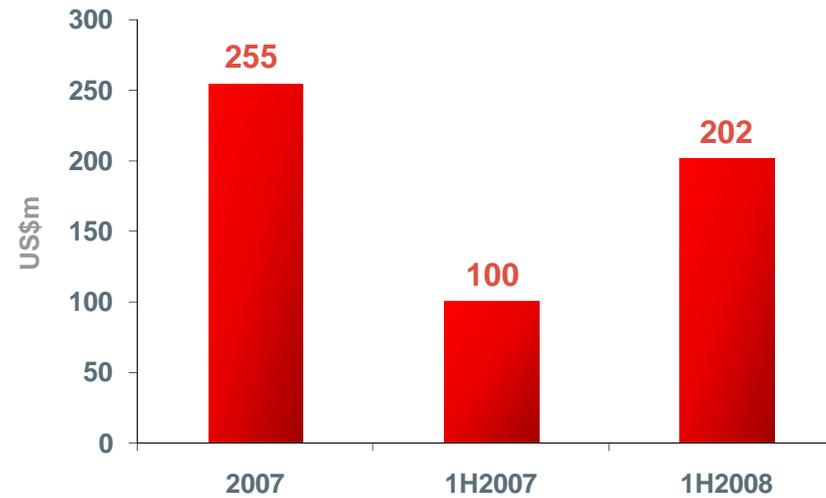
## Real Estate Development Inventory and Finished Goods



- Construction of buildings in progress and land acquisitions
- Construction of buildings (finished)

Projects under development and land acquisitions increased in 1H2008

## Capex Programme

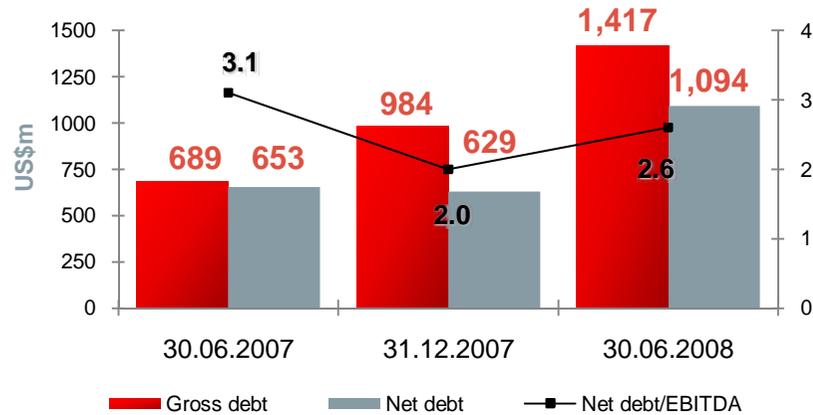


Note: Represents capex capitalised in the balance sheet

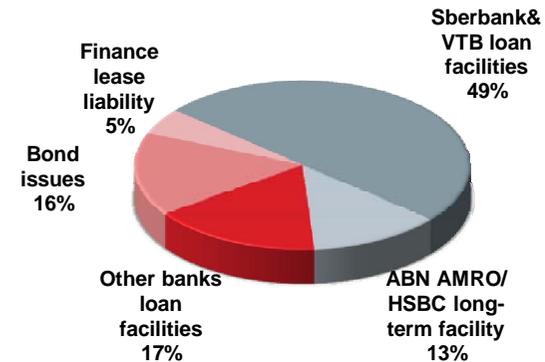
Capital investment programme aimed at increasing production within Building Materials, Aggregates and Panel Construction

# Debt

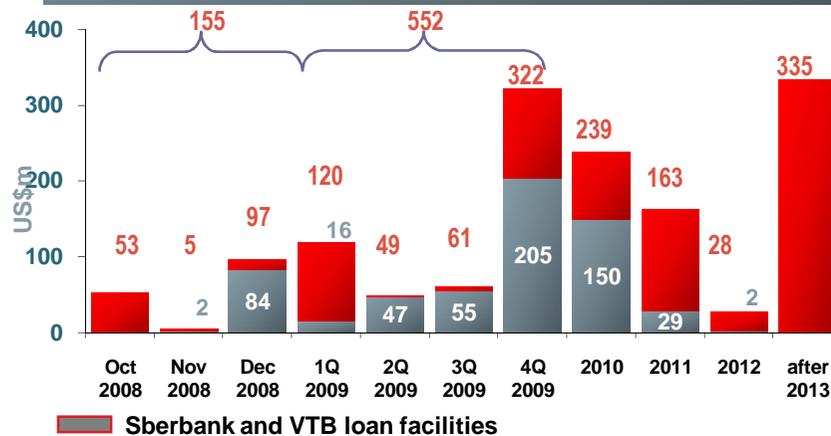
## Debt Development



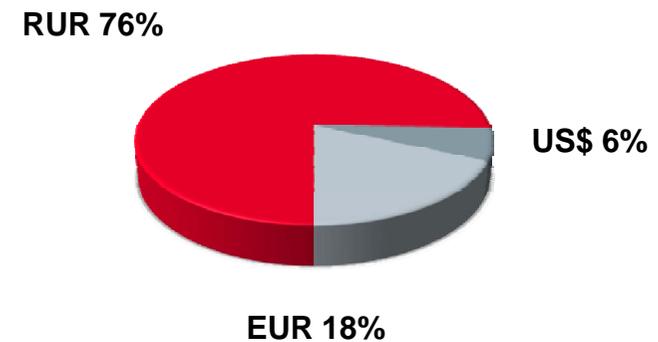
## Debt Structure (30 Jun 2008)



## Debt Maturity Profile\* (30 Sep 2008)



## Debt Portfolio Currency Split (30 Jun 2008)



\*excluding finance lease liability

# Income Statement

US\$m	1H2007	1H2008	Change
Sales revenue	616	940	53%
Cost of sales	(393)	(589)	50%
Gross profit	223	351	58%
Distribution, G&A and other expenses	(114)	(146)	28%
Changes in fair value of investment property	193	(159)	(183%)
Operating profit	301	46	(85%)
Net financial expenses	(27)	(38)	43%
Profit before income tax	275	8	(97%)
Income tax expense	(65)	(5)	(93%)
Net profit	209	3	(99%)
EBITDA	133	243	83%
EBITDA margin	22%	26%	-
Depreciation & amortisation	24	37	56%

# Balance Sheet

US\$m	2007	1H2008	Change
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	726	998	37%
Investment property under development	845	757	(10%)
Investment property	83	72	(14%)
Other	160	257	60%
<b>Total non-current assets</b>	<b>1,814</b>	<b>2,083</b>	<b>15%</b>
<b>Current assets</b>			
Inventories	1,344	1,627	21%
Trade and other receivables	369	596	62%
Cash and cash equivalents	355	323	(9%)
Other	20	15	(26%)
<b>Total current assets</b>	<b>2,087</b>	<b>2,561</b>	<b>23%</b>
<b>Total assets</b>	<b>3,901</b>	<b>4,644</b>	<b>19%</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	1	1	8%
Restitutable Shares Reserve	570	-	-
Share premium	-	570	-
Additional paid in capital	636	641	1%
Foreign currency translation reserve	84	162	94%
Retained earnings	441	435	(1%)
<b>Total equity attributable to shareholders</b>	<b>1,732</b>	<b>1,809</b>	<b>4%</b>
Minority interest	19	28	49%
<b>Total equity</b>	<b>1,751</b>	<b>1,838</b>	<b>5%</b>
<b>Non-current liabilities</b>			
Loans and borrowings	544	878	62%
Other	644	720	12%
<b>Total non-current liabilities</b>	<b>1,187</b>	<b>1,598</b>	<b>35%</b>
<b>Current liabilities</b>			
Bank overdraft	2	5	95%
Loans and borrowings	438	534	22%
Trade and other payables	480	623	30%
Other	42	47	11%
<b>Total current liabilities</b>	<b>963</b>	<b>1,209</b>	<b>26%</b>
<b>Total liabilities</b>	<b>2,150</b>	<b>2,807</b>	<b>31%</b>
<b>Total equity and liabilities</b>	<b>3,901</b>	<b>4,644</b>	<b>19%</b>

# Cash Flow

US\$m	1H2007	1H2008	Change
Net Income	209	3	(99%)
Depreciation & amortization	24	37	56%
Other, net	(96)	203	(312%)
<b>Operating profit before changes in working capital and provisions</b>	<b>137</b>	<b>243</b>	<b>77%</b>
<i>Change in Inventories</i>	<i>(110)</i>	<i>(205)</i>	<i>87%</i>
<i>Change in Trade and Other Receivables</i>	<i>(31)</i>	<i>(209)</i>	<i>579%</i>
<i>Change in Trade and Other Payables</i>	<i>37</i>	<i>166</i>	<i>352%</i>
<i>Increase in provisions</i>	<i>1</i>	<i>4</i>	<i>214%</i>
<b>Cash flow from operations before income taxes and interest paid</b>	<b>34</b>	<b>(1)</b>	<b>(104%)</b>
<i>Income Taxes Paid</i>	<i>(17)</i>	<i>(53)</i>	<i>208%</i>
<i>Interest Paid</i>	<i>(28)</i>	<i>(49)</i>	<i>76%</i>
<b>Cash flow from (utilised by) operating activities</b>	<b>(11)</b>	<b>(104)</b>	<b>841%</b>
Capital Expenditures	(75)	(190)	152%
Acquisitions	(51)	(134)	164%
Disposals	10	6	(45%)
Other	(3)	9	(459%)
<b>Cash flow from (utilised by) investing activities</b>	<b>(118)</b>	<b>(309)</b>	<b>162%</b>
Debt issued (repaid)	104	366	253%
Other	-	(2)	-
<b>Cash flow from (utilised by) financing activities</b>	<b>104</b>	<b>364</b>	<b>251%</b>
<b>Net change in cash</b>	<b>(26)</b>	<b>(50)</b>	<b>93%</b>
<b>Cash at beginning of period</b>	<b>60</b>	<b>352</b>	<b>486%</b>
Exchange rate fluctuations	1	15	1,543%
<b>Cash and end of period</b>	<b>35</b>	<b>318</b>	<b>800%</b>

# Significant Accounting Policies

- Preparation of IFRS accounts from 01 January 2005 onwards
- Revenue and cost recognition in Development:
  - Revenue and costs only recognised after the transfer of property to consumer upon completion of the project;
  - Prior to project completion development and construction costs are carried in the balance sheet as inventory (work in progress)
  - Land plot and infrastructure costs are also part of inventory
- Construction Segment (prefabricated panel construction) revenue and costs are recognised on a percentage-of-completion basis
- Building Materials and Aggregates revenue and costs are recognised at the moment of transfer to customer
- Commercial property (operating offices) and land plots owned by the company designated for commercial property development are revalued by an independent appraiser at each reporting date. Gain / loss is reflected in income statement for the reporting period. The revaluation of the rest of property portfolio (non-commercial property-related) is not reflected in the financial statements

# Agenda

Review of 1H 2008 Financial Results

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**Market Update**

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# Whilst the Russian property market is affected by the current turmoil, long term fundamentals still look very strong

## The global credit crunch increased risk in the Russian property sector

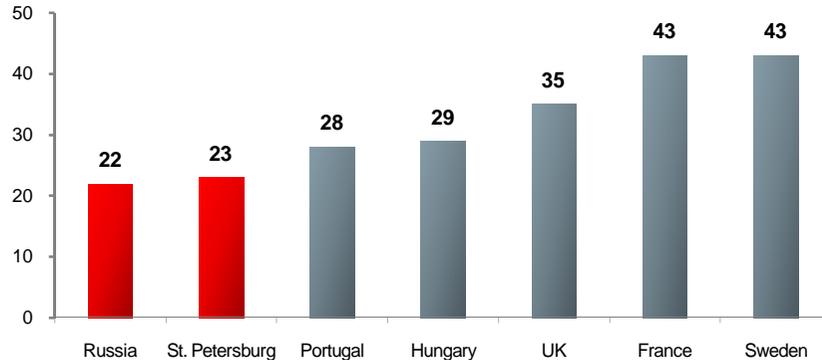
- **Tighter liquidity** is pushing interest rates upwards, increasing cost of funding and limiting access to capital
- Those real estate development companies, which relied heavily on debt financing, are directly affected
- **Stabilisation of real estate prices** due to substantial price increases in the past and tightened mortgage conditions
- The extent of influence of the crunch on the Russian real estate market is early to judge yet. It is to be understood in 1Q2009

## However, the medium term outlook for the Russian property sector is still very promising

- Current crisis likely to create an **even stronger demand/supply imbalance in the future**
  - Current delay of some development projects leads to continued under-supply in both the residential and commercial segments
  - Developers which are now able to still proceed with their projects have a clear competitive advantage
- General **medium term macroeconomic outlook** for Russia still **very good**
  - Expected medium term increases in disposable income and purchasing power of the population is key driver for occupier and investor demand in the real estate sector
  - Household savings as a percentage of income increasing steadily (16.7% in 2000, 18.6% in 2006), with increasing portion of those savings directed to purchase of real estate (7% in 2000, 12% in 2006)
- The **St Petersburg market** in particular, which LSR is mostly exposed to, is marked by a **shortage of supply of housing and office stock**
  - Housing stock of 23 sqm per capita low versus the European average
  - 25%-30% of housing stock considered obsolete, requiring replacement or full renovation
  - St Petersburg is the “communal” capital of Russia, with c. 113,000 “communal” flats where several families share one flat and c. 190,000 flats in the first series of panel houses built before 1970. These are of poor quality, which creates demand for improved living conditions
  - At just 166 sqm, office stock per 1,000 inhabitants is also far below most of its CEE and European peers
- **Mortgage system** development
  - Introduced in 2003, total mortgage loans have increased from US\$1.1bn in 2004 to US\$13.5bn at the beginning of 2007
  - Level of mortgages as a % of GDP remains extremely low compared to other countries (3% in Russia compared to average of 49% in the European Union)<sup>1</sup>

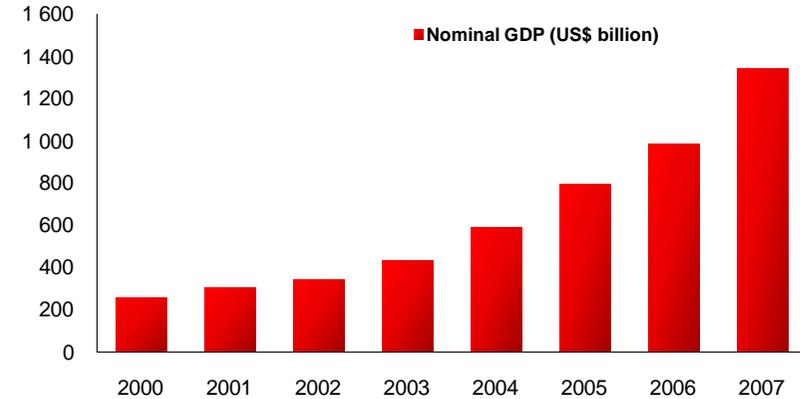
# Growing economy and positive structural developments over the last years

## Housing Stock is still low in comparison



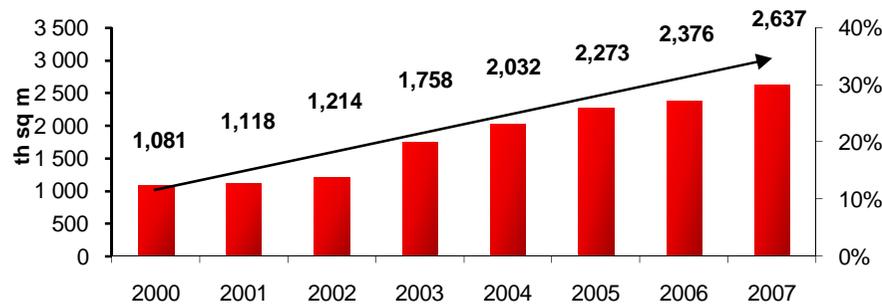
Source: Euroconstruct, Rosstat, St Petersburg Realty

## Russia has enjoyed strong growth over the past years



Source: Rosstat, Credit Suisse estimate

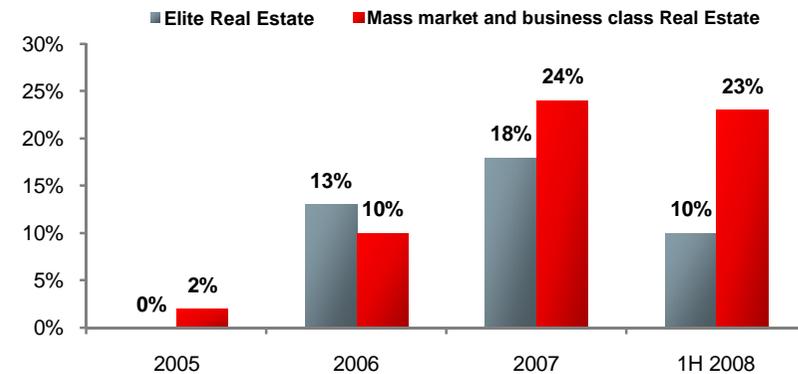
## Housing Space Completions in St Petersburg



Source: Petrostat

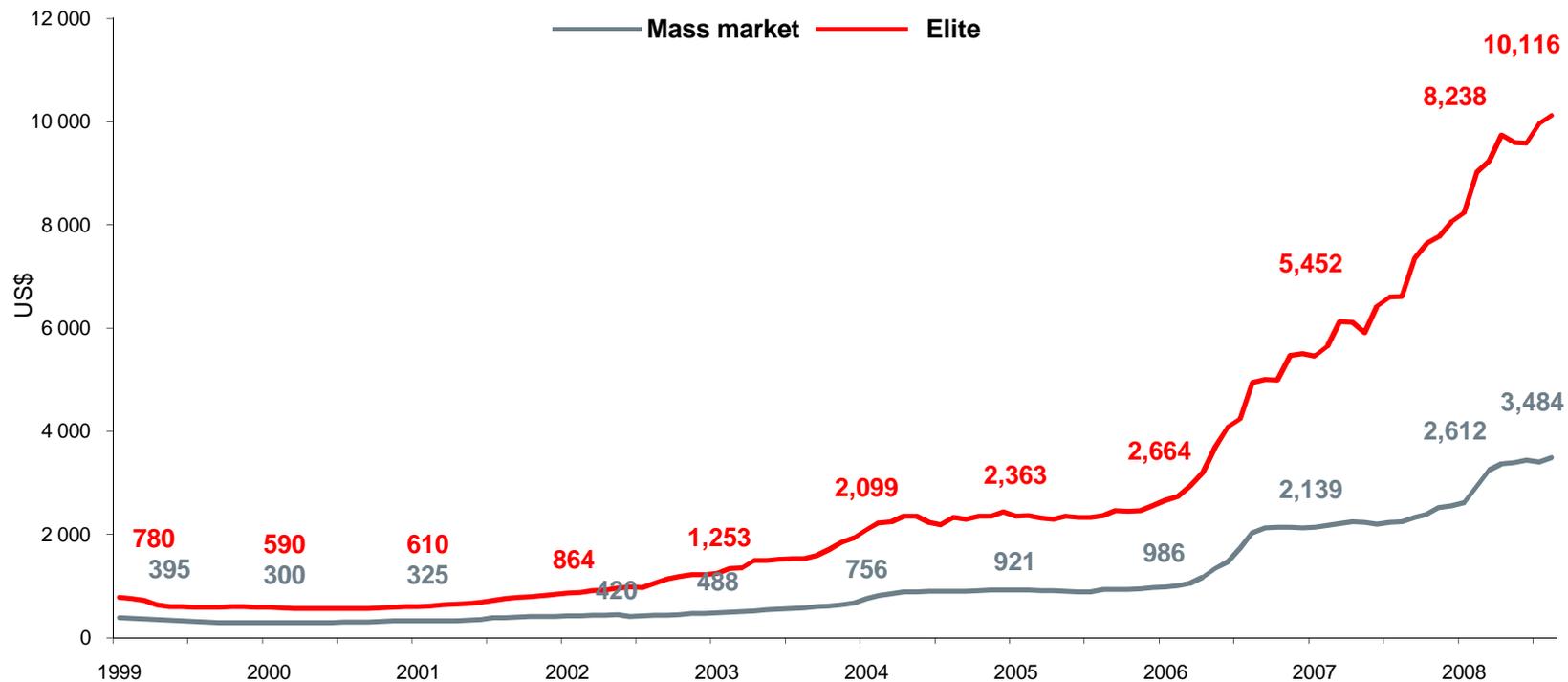
## Mortgage system development has supported LSR's sales

### Share of mortgage sales in LSR Group sales



# High basic needs and substantial purchasing power were driving price increases

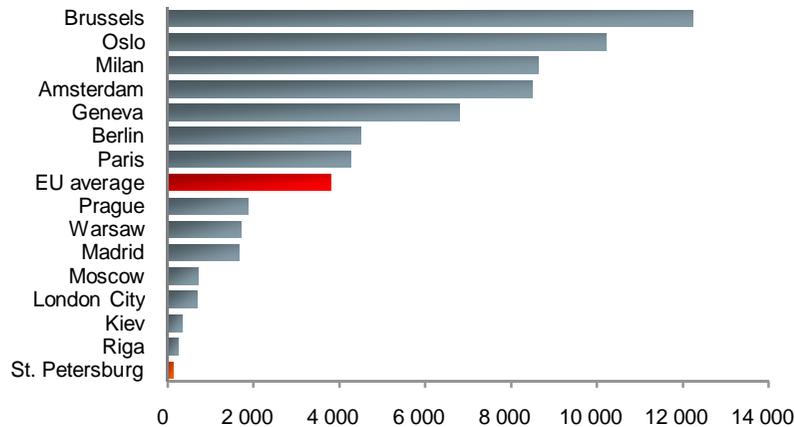
## New Residential Real Estate Price Development in St Petersburg



- Current price levels provide substantial margin for developers and provide “margin cushion” in case of price decrease

# St Petersburg office market

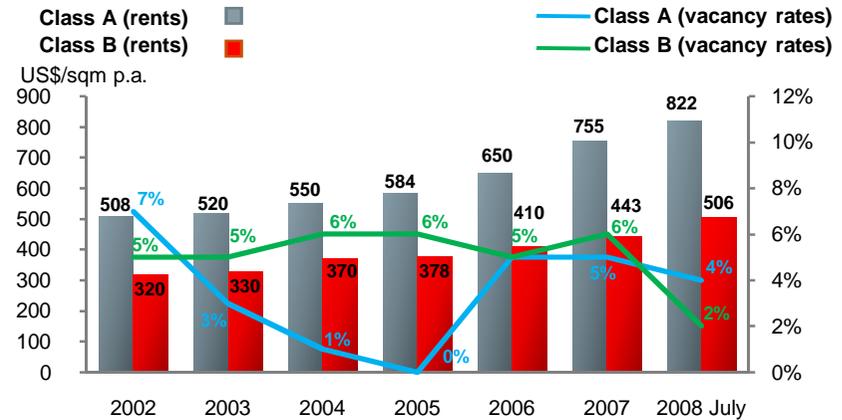
Office stock per 100 inhabitants, in 2007 (sqm)



Note: total office stock  
Source: Colliers, J.P. Morgan estimates

- St Petersburg's office market remains **relatively unsophisticated and undersupplied**
- At the same time, the sector is **quite dynamic and supply of office space** in St Petersburg has been **growing in the recent years**
- However, office stock per capita remains at a **fraction of European and Moscow levels**

St Petersburg: Office price dynamics



Source: Colliers

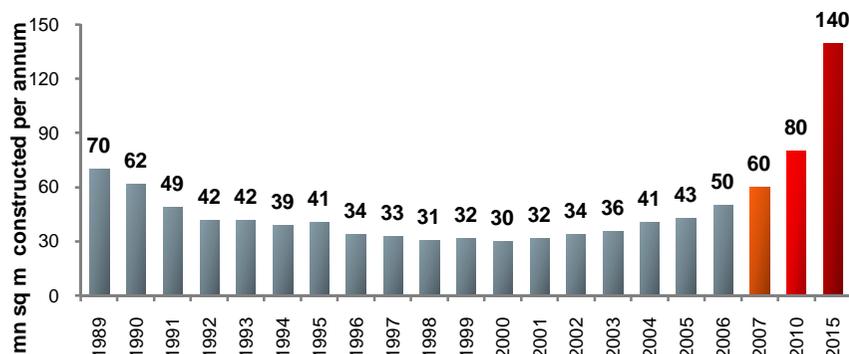
- St. Petersburg has one of the **lowest vacancy rates of European cities**, a reflection of **strong demand and a lack of supply**
- However, as new office space enters the market, vacancy rates are likely to increase over the next few years

# Outlook for the building materials industry is very attractive

- The **macro-economic environment is uncertain in the short-term**, but the underlying fundamentals will continue to support **strong demand for construction products in the medium- to long-term**
  - Development of the Russian economy and increase of income per capita
  - Substantial under-supply of real estate assets
- **Supply-side** of building materials industry is **constrained**
  - 60% to 70% of the industry capacity is obsolete
  - Existing equipment park dominated by non-efficient processes and technology
  - Utilisation rates close to industry capacity over the last years
- The sector benefits from **high barriers to entry**
  - Building of greenfield factory is a time-consuming and capital intensive project (up to 5 years)
  - Access to captive raw materials sources (such as granite, sand and clay)
  - Scale advantage on brand and operations
- **Strong construction pipeline** to support short-term demand
  - Evidence in the infrastructure, industrial and residential segments

# High demand for buildings materials is reflected in strong price increases

## Residential Construction Activity, Russia



Source: Order of the Government of the Russian Federation for 2010; Government program "Affordable housing"

## Production of Building Materials is Far Behind Soviet Levels

Materials	1980	1990	2007
Cement, millions of tons	76	83	61
Reinforced concrete and concrete panels, millions of m3	65	79	29
Wall materials, billions of non-formatted units	29	34	19
incl. brick, billions of units	23	25	13
Construction of new residential houses in Russia, millions of sqm of gross buildable area	59	62	60

Source: Reshenie

## Building materials demand is supported by strong construction pipeline

### Industrial, commercial and residential construction

#### Industrial construction

- General Motors, Hyundai and Suzuki, Nissan: construction of new factories in St Petersburg (more than US\$ 800m). Auto component producers are to follow
- MMK: auto components plant in Leningrad region (US\$ 120m)
- Severstal: steel-processing plant (US\$ 340m)

#### Commercial and leisure construction

- New Holland (cultural center designed by Norman Foster) in the center of St Petersburg (US\$ 378m)
- New football arena (US\$ 250m)
- Second stage of Mariinsky Theatre (US\$ 500m)

#### Retail space construction

- Substantial pipeline of retail centres is under development
- Stockmann: retail center in St Petersburg (EUR 110m)

#### Office space construction

- Several major corporations relocating from Moscow (Gazpromneft, VTB): development of new offices in St Petersburg

#### Residential construction

- Baltic Pearl: net sellable area of 1.760 m sqm (US\$ 1,350m)
- Apraksin dor: NSA of 347,500 sqm (over US\$1,000m)
- Planetograd Project: multi-functional, modern residential quarter consisting of 2.1m sqm NSA (US\$ 4,800m)

Amounts in brackets show announced or estimated budget

### Infrastructure construction

#### Transportation

- St Petersburg Underground System Expansion. 20 new stations and 40km of lines to be launched by 2020
- Orlovsky Tunnel. New tunnel to link northern and center parts of St Petersburg. (US\$ 981m)
- Ground Express. High speed city express to link city and suburbs (US\$ 420m)
- High-Speed Federal Road Moscow – St Petersburg (US\$ 2,100m)
- St Petersburg Ring Road
- West High-Speed Diameter: High speed road to link northern, central and south districts of St Petersburg (US\$ 2,900m)
- Construction and reconstruction of 33 bridges in St Petersburg
- High-Speed Railways Lines: St-Petersburg – Moscow
- **Sea Passenger Terminal** (US\$ 1,042m)
- New International Airport

#### Energy

- Three new heat and power plants
- Two new blocks of Leningrad Nuclear Station

# Contacts

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