



Capital Markets Day 2016

Agenda



14:00 Registration

15:00 **Leadership** **Andrey Molchanov, CEO**

Investment Case **Andrey Nikitin, CFO**

Real Estate Development & Construction **Eugeny Yatsyshin, First Deputy CEO**

Building Materials **Sergey Begoulev, Managing Director of LSR.Wall Materials**

Centralized Sales & Procurement **Yuri Ilyin, CCO**

Human Resources & Organizational Development **Tatyana Chernysheva, Deputy CEO for HR and Organizational Development**

16:15 Q&A

17:00 ZILART site visit

18:30 Boat trip on Moscow river



Real Estate Development

- We are Russia's largest home builder by volume with 2,2mn m² under construction
- We have built 500 houses in 23 years of operations
- Since IPO, we sold 4,2 mn m² of new housing
- We built 500 th m² of elite housing in St. Petersburg and occupy a 44% market share in this segment*
- We were the first in St. Petersburg to introduce seamless façade technology and construct 25-story homes
- Our flagship project in Moscow, ZIL, is the largest redevelopment project under construction in Europe

Construction

- We have nearly 1mn m² of modern, prefab housing capacity located in three cities of operation
- We operate 3 fully modernized construction facilities
- We have the largest and most modern crane fleet in the North-West region, totaling 220 units

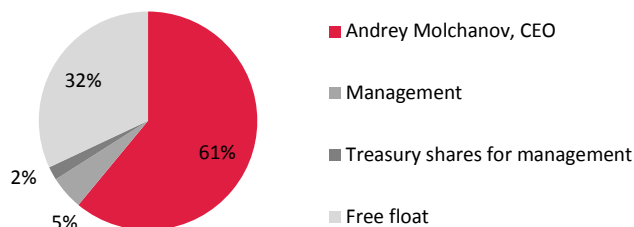
Building Materials

- We are absolute leader in building materials' markets of the North-West region with a 72% market share in bricks and a 42% share in aerated concrete
- We export our bricks to the EU and the CIS
- We have the largest resource base in our home region: our sand and crushed granite reserves are enough to last 25 years and 80 years, respectively
- We have the best and most diversified transport infrastructure in our home region

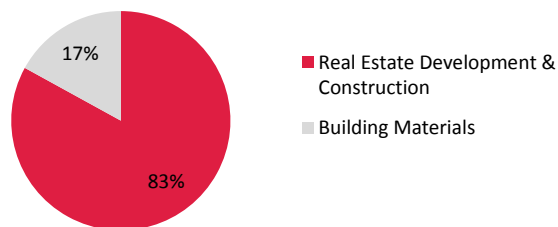
*by completions

- Leading Russian real estate developer, construction company and building materials producer
- Builder of mass-market, business-class & elite housing with 23-year history and strong brand awareness
- Operating in Russia's three largest cities: Moscow, St. Petersburg and Ekaterinburg
- Possessing a land bank exceeding 9 mn m² valued at RUB 136 bn by Knight Frank as at 31 December 2015
- Owner-managed company focused on shareholder returns
- Public since 2007 and paying steady dividends since 2011. One of the highest dividend yielding stocks in Russia

Shareholder structure

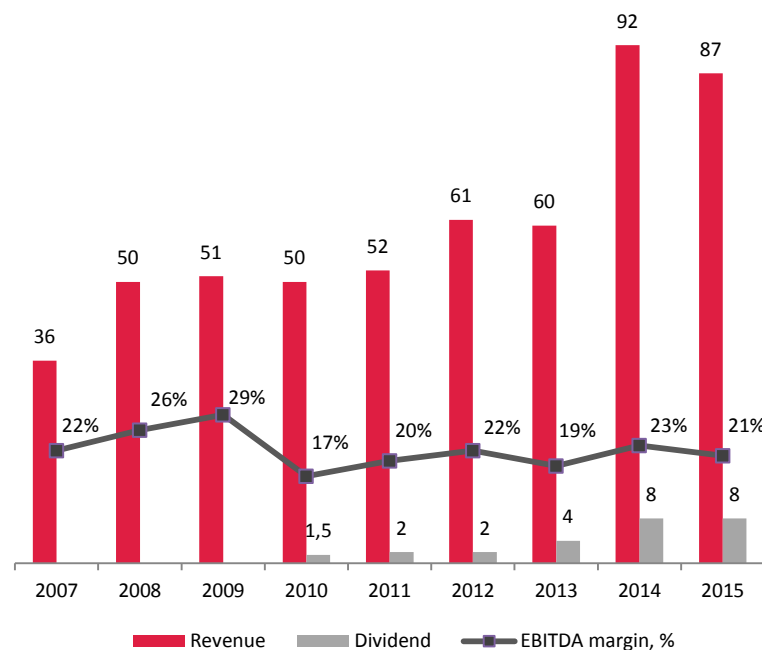


2015 EBITDA Breakdown by Segment



Source: Company, August 2016

Revenue, EBITDA and Dividends since IPO, RUB bn

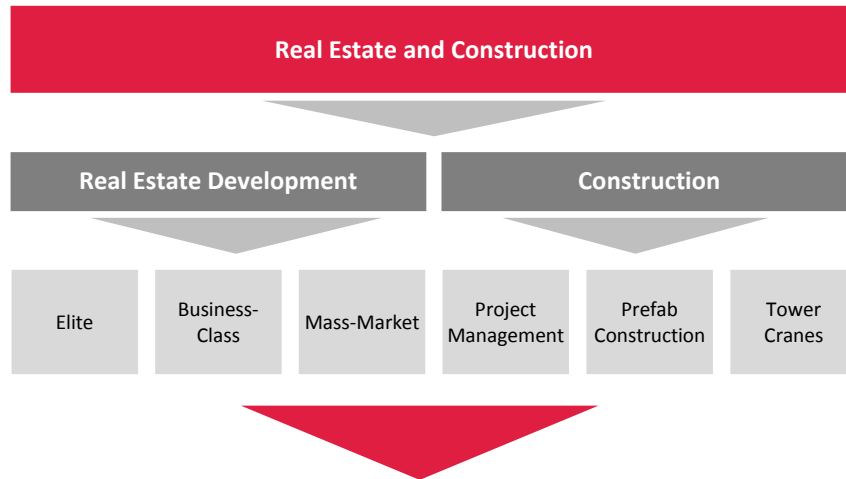


Source: Company, August 2016

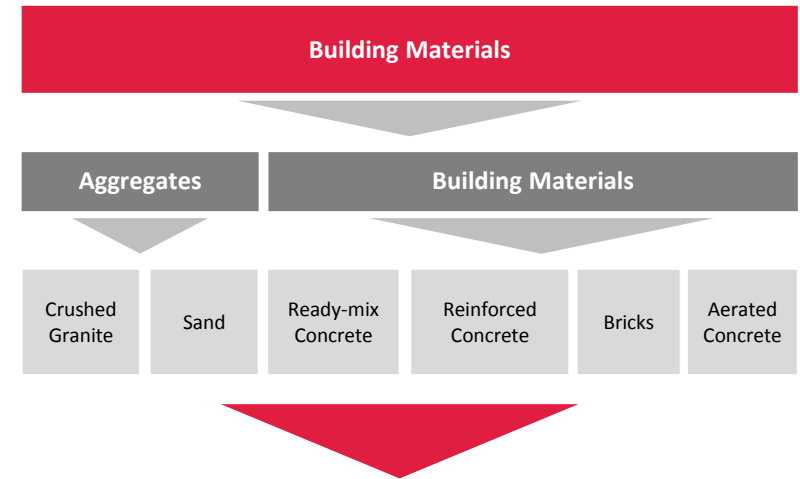
Business Structure



- We have 13 business units with a total staff of 15,500 employees
- We operate in 3 countries, including Russia, Ukraine (aerated concrete) and Germany (real estate development)
- We do full cycle of design, production and construction of mass-market projects



Region	Home construction capacity (m ²)
St. Petersburg and Leningrad region	500 000
Moscow and Moscow region	250 000
Yekaterinburg	200 000
Total	950 000



	St. Petersburg	Moscow	Ukraine
Building Materials, capacity			
Ready-mix concrete	1 947 000 m ³		
Bricks	380 mn	70 mn	
Aerated concrete	380 000 m ³		970 000 m ³
Reinforced concrete	570 000 m ³		
Aggregates			
	Reserves	Capacity	
Sand	223 mn m ³	22 mn m ³	
Crushed granite	583 mn m ³	8.1 mn m ³	



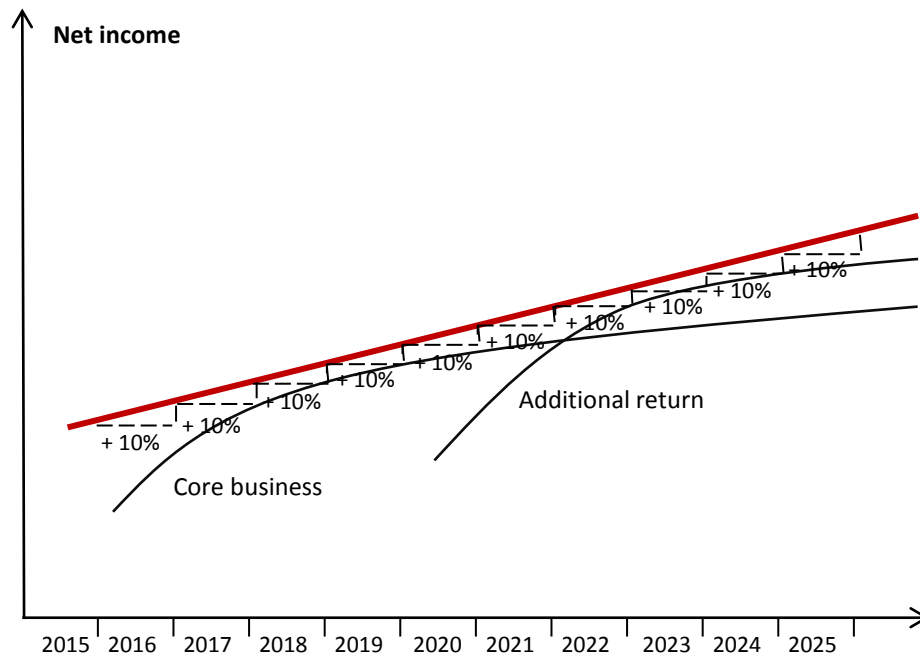
INVESTMENT CASE



- LSR Group's investment case is founded on a solid foundation of macro, industry and company specific drivers
- The Russian economy has bottomed, inflation is falling and savings are at an all time high, supporting housing demand
- Tougher lending conditions and stricter legislation are favoring big, public real estate developers with long track records
- New management team is shifting focus to higher-return projects and shedding non-core assets to support dividend



- The new investment strategy focuses on forecastable, continuous growth of earnings and free cash flow
- One of the key priorities is achieving alignment of motivation between management and shareholders



Priorities:

1. Quasi-fixed returns:

- Bi-annual dividend payouts
- Bonds
- Preferred shares
- Rental assets

2. Forecastability:

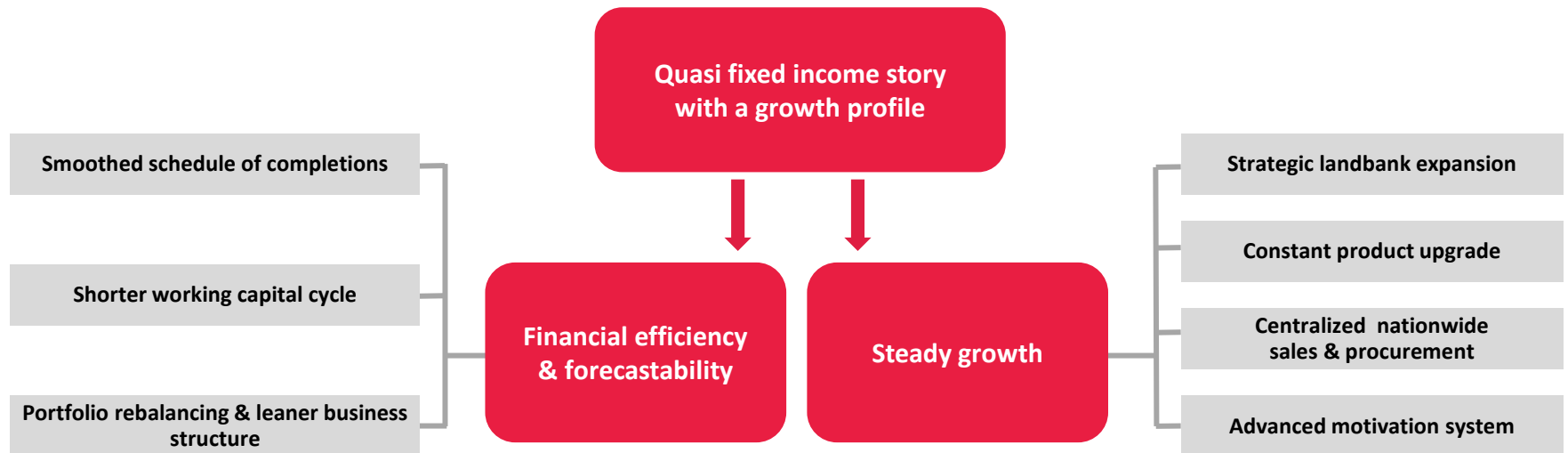
- Budget quality and discipline
- Aligned management motivation
- Financial guidance

Business Alignment with Financial Strategy



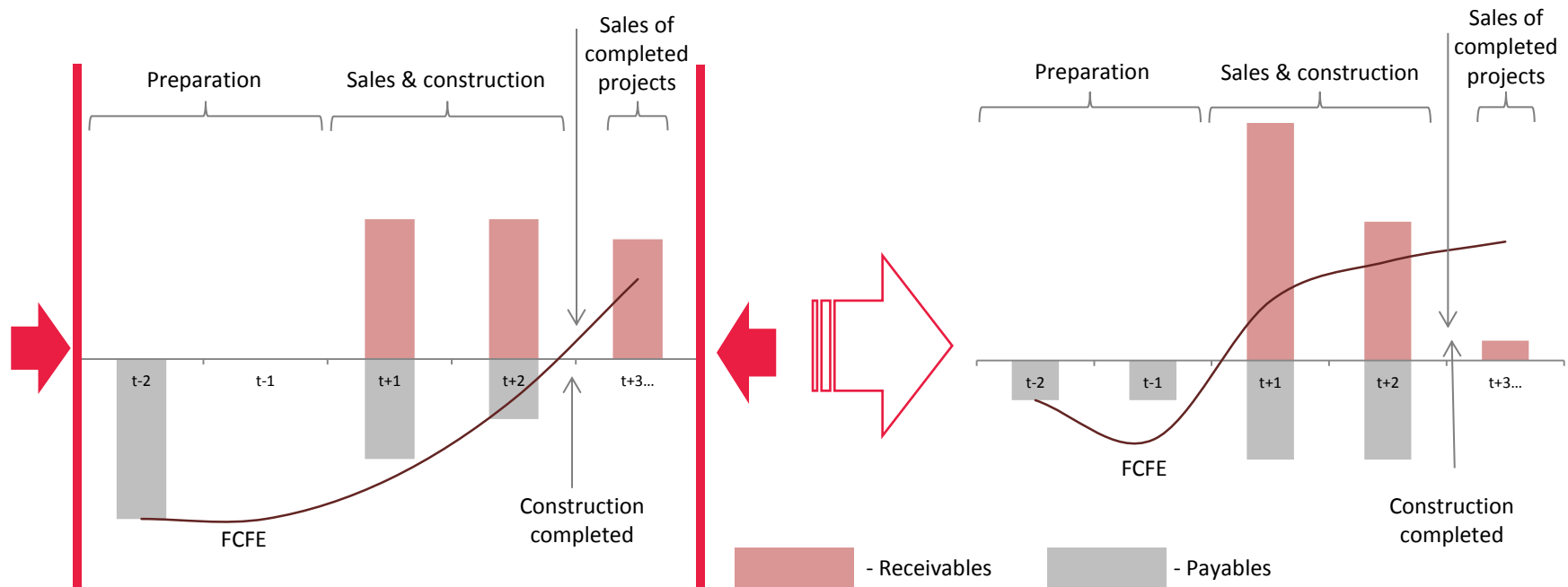
Finance will be driving business renewal through:

- Enhanced corporate/business efficiency
- Portfolio rebalancing
- Non-core asset sale

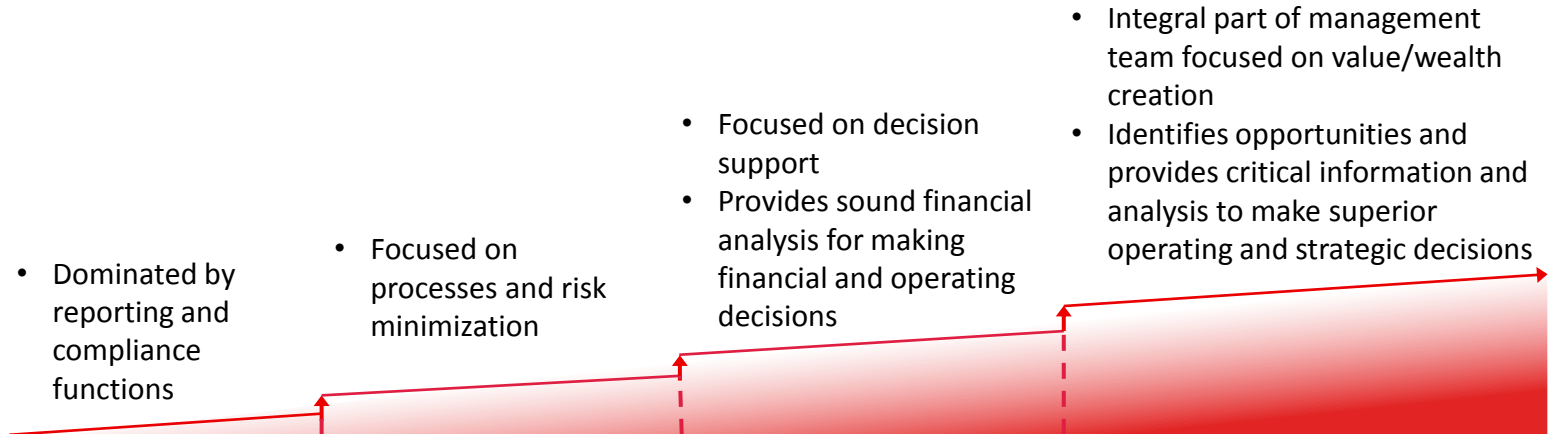


ROIC is expected to be continuously increased through comprehensive system of working capital management:

- Synchronization of construction, transfers and cash inflows
- Smoothed schedule of completions
- Acceleration of the turnover of advances paid



Strategic Development of Finance Function

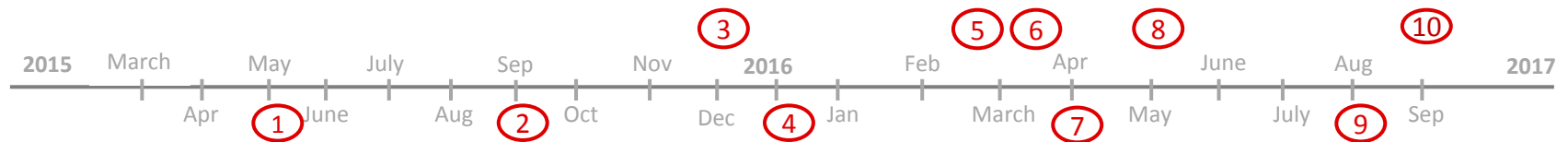


Stage	1 Transactional management	2 Controlling the business	3 Planning and analysis	4 Integrated functional excellence
Role	«Bean counter»	«Process managers»	«Business-partners»	«Value managers»
Key capabilities	<ul style="list-style-type: none"> • Financial accounting 	<ul style="list-style-type: none"> • Management reporting • Tax • Audit • Treasury 	<ul style="list-style-type: none"> • Performance management • Analysis 	<ul style="list-style-type: none"> • Superior decision support for wise investments • Business development • Enterprise risk-management
Challenge	Number of transactions	Consistent process excellence	Talent and insight into value drivers	Leadership and performance management

Recent Changes



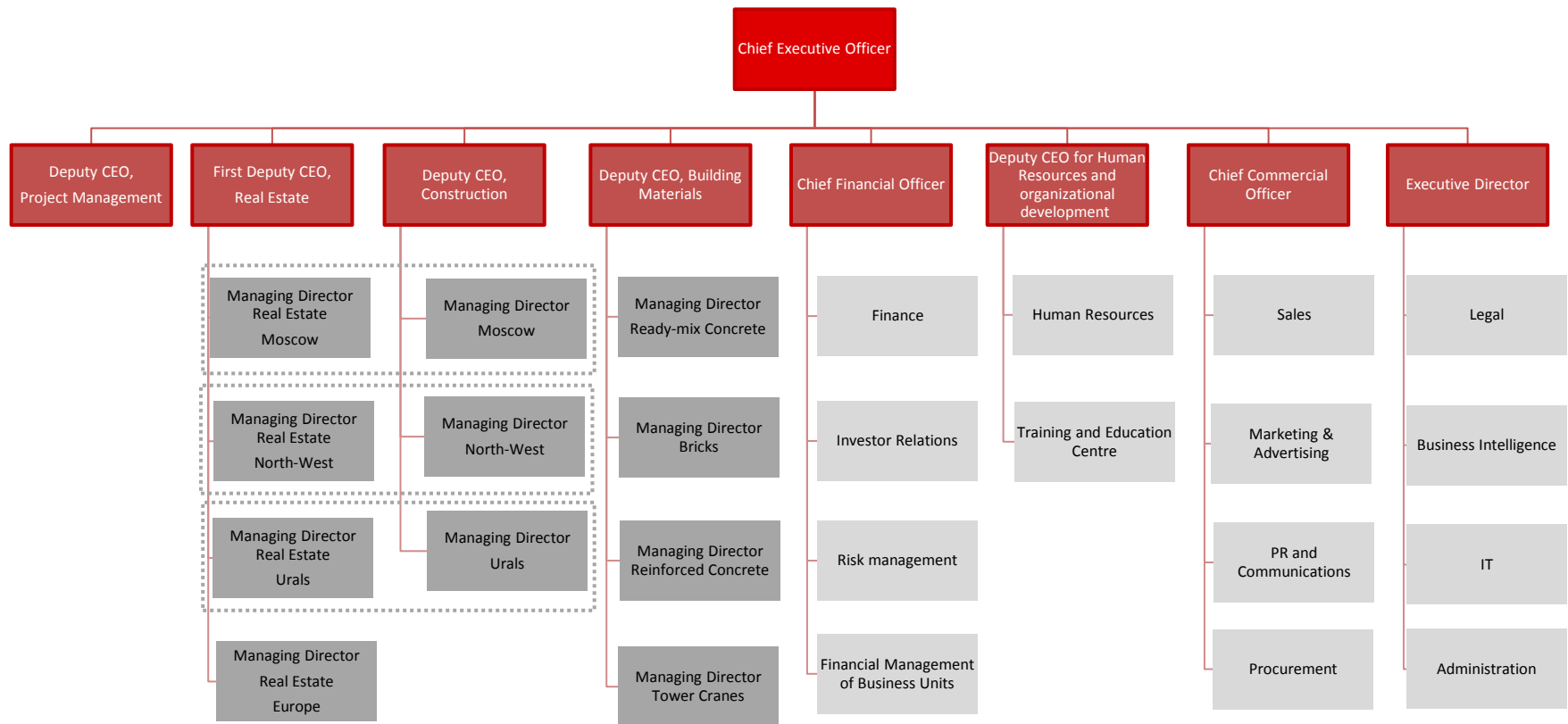
- ① Majority shareholder steps in as CEO
- ② Strategic acquisitions of large-scale projects in Moscow
- ③ Development of new management motivation program
- ④ Development of new architecture of value-added and organizational structure
- ⑤ Consolidation of centralized sales and procurement functions under Commercial directorship
- ⑥ New structure of Executive committee and adoption of “agile” approach/cross-functional teams
- ⑦ Qualitative changes to the Board of Directors
- ⑧ Investment strategy and financial management (10-year strategic model) defined as corner-stone of the business-model
- ⑨ Strategic changes to the IT platform planned (switch to Oracle platform)
- ⑩ Investor Relations activities are back full-scale



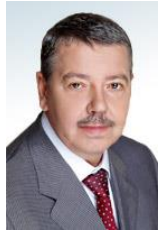
New Organizational Structure



- New structure combines functional and regional competences
- The structure takes into account local market specifics and allows for synergy across functions and products
- Clear areas of responsibilities produce highly quantifiable results
- Favors business scalability
- Open to strategic change, easy to adapt new business processes



Board of Directors



Alexander Vakhmistrov
Chairman
First Deputy CEO



Dmitri Gontcharov
Deputy Chairman
Managing Director
LSR Europe GmbH



Andrey Molchanov
CEO,
Chairman of the
Executive Committee



Olga Sheikina
Head of LSR Group
Moscow Office



Vasily Kostritsa
Deputy CEO
Building Materials



Eugeny Yatsyshin
First Deputy CEO
Real Estate

Independent directors



Vitaly Podolsky
Former X5 CFO
Cherkizovo board member



Aleksey Makhnev
Managing Director
VTB Capital



Alexandr Prisyazhnyuk
Former Magnit CFO
M-Video board member

Executive Committee



Andrey Molchanov
CEO, Chairman of the
Executive Committee



Evgeny Yatsyshin
First Deputy CEO
Real Estate
Development



Vasily Kostritsa
Deputy CEO
Building Materials



Leonid Sorokko
Deputy CEO
Construction



Andrey Nikitin
CFO



Yuri Ilyin
CCO



Galina Volchetskaya
Executive Director

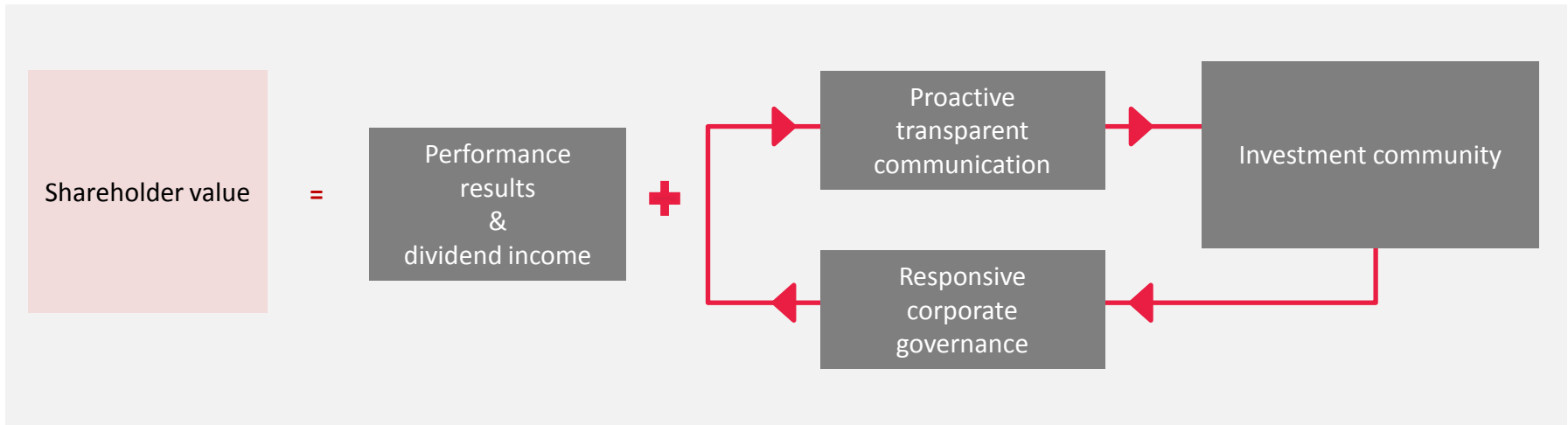


Tatyana Chernysheva
Deputy CEO
HR & Organizational
Development

New Investor Relations Strategy

The new Investor Relations strategy will focus on building long-term GARP and value investor base through:

- Better disclosures and guidance
- Greater access to top-management
- New sources of shareholder return



Financial highlights

- Revenue increased by 10% y/y, up to RUB 31,62 bn
- EBITDA decreased by 22% y/y, down to RUB 4,49 bn
- EBITDA margin decreased to 14% from 1H 2015
- Profit for the period was RUB 1,1 bn (-72% y/y)
- Net debt/EBITDA ratio reached 1,09x as at the end of June 2016

Operating highlights

Real Estate Development and Construction

- New contract sales were up 76% y/y to RUB 37,77 bn and by 60% in volume up to 366 th m² in 1H16 y/y, driven by active market share consolidation, continued Moscow expansion, and new project launches
- Average selling price grew by 9% y/y in 1H16 and 14% y/y in 2Q16 on the back of greater Moscow share in the sales mix
- Moscow share in new contract sales continued to break record highs: 47% of total sales in 2Q16
- New sales launches totaled 322 th m² in 1H16, and we stay on track in regards to our full year plans
- Construction volumes in line with the plan: 484 th m² in 1H and 285 th m² in 2Q16

Building Materials

- 2Q16 positive sales trends: crushed granite (+25% y/y), sand (+13% y/y), aerated concrete (+17% y/y)
- 2Q16 negative trends: ready-mix concrete (-24% y/y), reinforced concrete (-11% y/y) and bricks (-14% y/y) remained subject to overall subdued new construction activity

1H 2016 Results: Real Estate Development



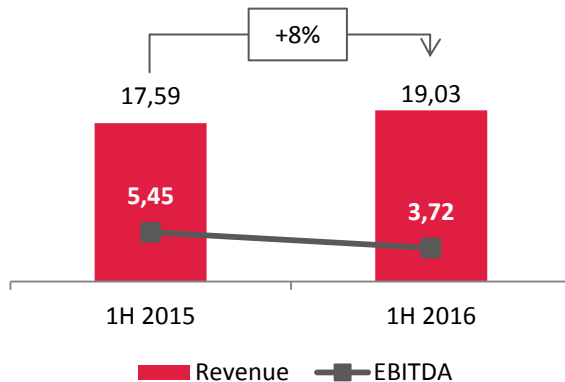
1H16 Results Overview

- Revenue increased by 9% y/y
- Completions volume increased by 58% y/y up to 206 th m²
- EBITDA decreased by 32% y/y and EBITDA margin dropped to 20% from 31%

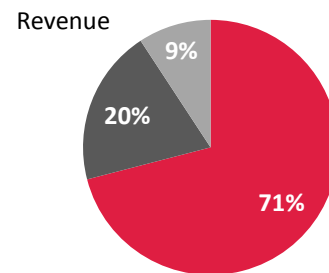
Regional breakdown

- **St. Petersburg:** revenue amounted to RUB 13,48 bn (-14% y/y). EBITDA margin slightly fell from 36% to 33% on the back of a change in deliveries mix
- **Moscow:** revenue showed a 250% y/y growth in 1H, up to RUB 3,77 bn. The share of Moscow in total real estate revenue increased from 6% in 1H 2015 to 20% in 1H 2016. EBITDA loss was RUB 844 mn
- **Ekaterinburg:** revenue grew by 444% y/y in 1H, up to RUB 1,74 bn. EBITDA increased to RUB 169 mn from a negative value, as deliveries in selected projects were made ahead of schedule

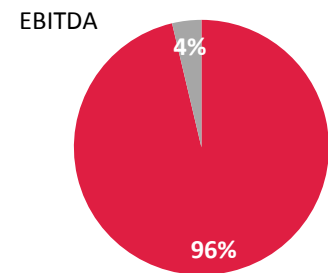
Revenue* and EBITDA* (RUB bn)



1H 2016 sales revenue and EBITDA breakdown by region



■ St. Petersburg ■ Moscow ■ Ekaterinburg



■ St. Petersburg ■ Ekaterinburg

* Before intra-group eliminations, unallocated amounts and other operations

1H 2016 Results: Construction



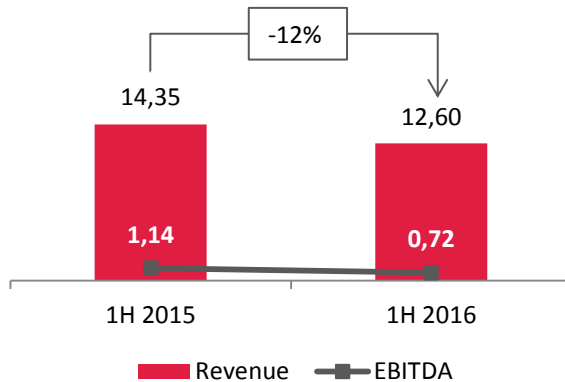
1H16 Results Overview

- Revenue from construction decreased by 12% y/y
- Our construction business transferred to customers 484 th m2 (+5% y/y) of panel housing
- EBITDA decreased by 37% y/y. EBITDA margin was 6%

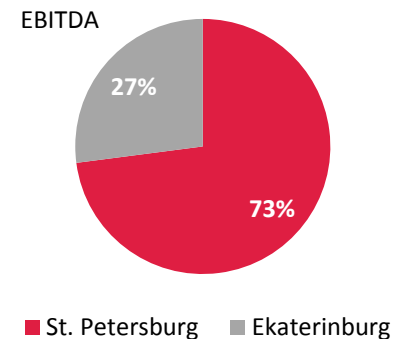
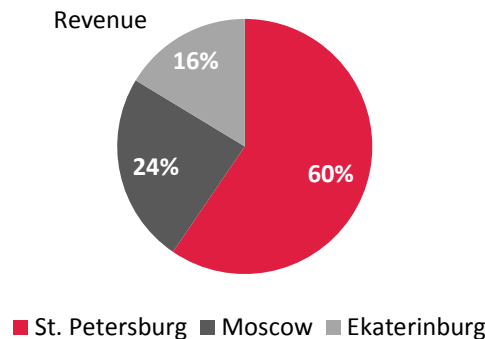
Regional breakdown

- **Saint-Petersburg:** revenue decreased by 15% y/y to RUB 7,52 bn. EBITDA decreased by 34% y/y to RUB 604 mn
- **Moscow:** revenue declined by 12% y/y to RUB 3,05 bn. EBITDA loss was RUB 104 mn
- **Ekaterinburg:** revenue increased slightly by 3% y/y, to RUB 2,06 bn, while EBITDA increased by 15% to RUB 224 mn

Revenue** and EBITDA* (RUB bn)



1H 2016 sales revenue and EBITDA breakdown by region



* Before intra-group eliminations, unallocated amounts and other operations

** More than 80% of Construction revenue comes from intra-group transactions

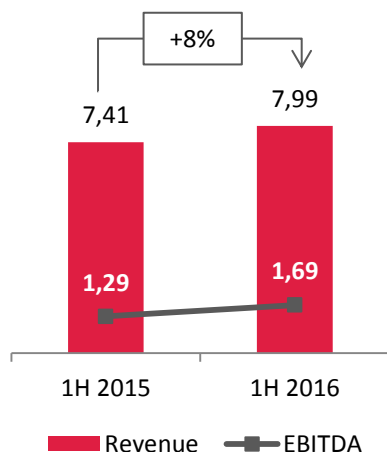
1H 2016 Results: Building Materials



1H16 Results Overview	Product breakdown		
	Aggregates	Ready-Mix Concrete and Reinforced Concrete	Bricks and Aerated Concrete

- EBITDA increased by 31%
- EBITDA margin grew from 17% to 21% y/y

Revenue* and EBITDA* (RUB bn)



- Performance drivers: M-11 highway contracts
- **Crushed granite** sales were 2.8 mn m³, up 16% y/y
- Revenue went up 17% y/y to RUB 1,39 bn. EBITDA increased by 355% y/y to RUB 296 mn. EBITDA margin was 21%
- **Sand** sales were 4.4m m³ for the same period (+7% y/y)
- Sand revenue amounted to RUB 1,1 bn, up 24% against 1H 2015. EBITDA amounted to RUB 306 mn (+123%). EBITDA margin was 28%

- Performance drivers: weaker demand, intense competition
- **Ready-mix concrete** sales were 391 th m³, down 26% against 1H 2015
- Revenue dropped by 16% y/y down to RUB 1,29 bn. EBITDA loss amounted to RUB 9 mn
- **Reinforced concrete** sales were 124 th m³, down 6% against our sales in 1H 2015
- Reinforced Concrete revenue increased by 41% y/y to RUB 1,71 bn. EBITDA was RUB 392 mn (+284%). EBITDA margin was 23%

- **Bricks** sales were down 15% y/y to 149 mn units
- Performance drivers: transportation regulations, unfavorable weather conditions, slowdown of construction, high base effect of 1H 2015
- Revenue was down 12% y/y, to RUB 1,47 bn. EBITDA margin was 27%
- **Aerated concrete** sales amounted to 640 th m³ (+9% y/y)
- Performance drivers: sales' campaigns, Ukraine sales
- Aerated Concrete revenue increased by 8% y/y, to RUB 1,42 bn. EBITDA margin was 21%

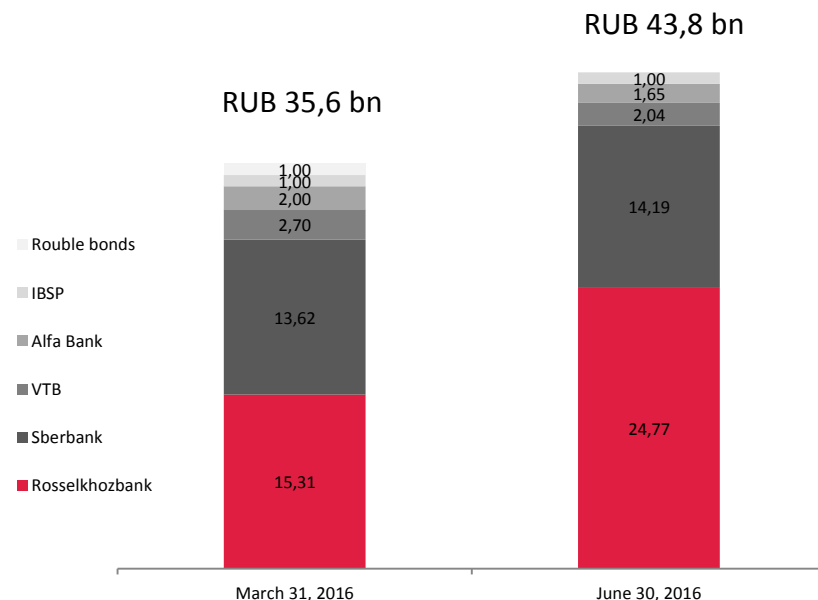
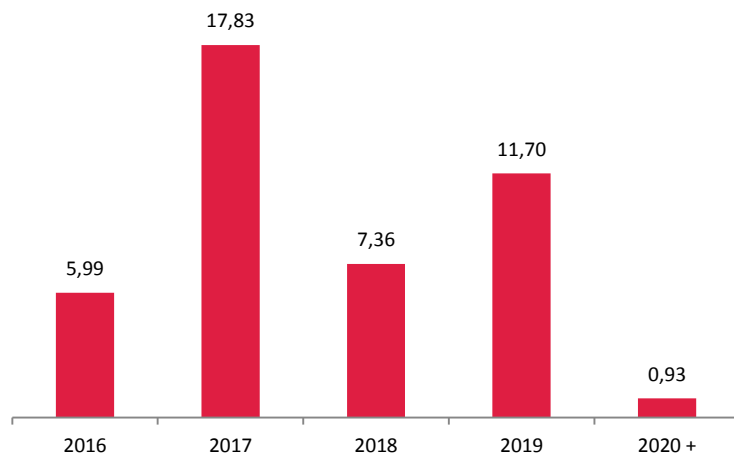
* Revenue and EBITDA are stated after adjustments for intra-group transactions

Debt Maturity Profile



- Gross debt increased up to RUB 43,96 bn* in H1 2016
- The average interest rate decreased to 11,7% by end June 2016 from 11,97% in end March 2016
- Company intends to refinance short-term debt
- Company has no foreign debt exposure
- Net Debt/EBITDA reached 1,09x as at 30 June 2016

Debt repayment schedule (RUB bn)



* Excluding finance lease liability and other loans



REAL ESTATE DEVELOPMENT & CONSTRUCTION



- Real estate has been put at the core of our business structure and became the main source of growth
- We have shifted added value generation towards real estate, and construction is now working at minimal margin
- We aim at adding individually designed buildings to our mass market offering
- Our growth will be focused on:
 - Expansion in Moscow
 - High margin projects in St.Petersburg
 - Increase of business-class projects with higher margin and with more favorable payment terms (including payment installments and stake sale)

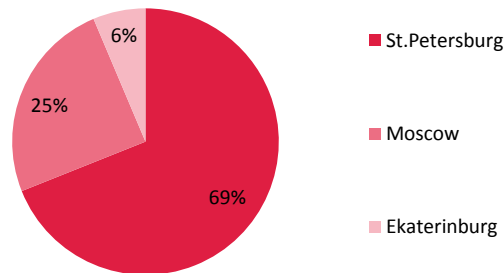


Real Estate Portfolio Breakdown

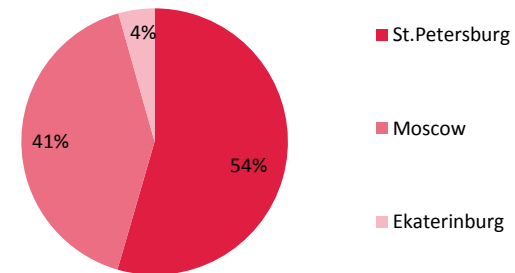


- We have the largest high quality landbank in Russia among real estate developers, concentrated in three largest cities in Russia
- We plan to turn all land plots into high added value projects
- Our portfolio consisted of 9.3 mn m² as of Dec. 31, 2015 and was valued at RUB 136 bn by Knight Frank
- We cater to all customer segments in Russia's largest urban areas, with the largest share represented by mass-market
- With the addition of ZIL-South in Moscow in 2016, our portfolio is now about 10 mn m², with nearly half the value in Moscow
- We also purchased a new project in Germering (Germany), with NSA of 20,500 m²

Portfolio breakdown by region, m²



Portfolio breakdown by region, RUB bn



Source: Knight Frank valuation as of 31.12.2015

Key Competences



- We have 42 projects in pipeline in St.Petersburg, Moscow, Ekaterinburg and Munich
- Our current landbank is enough to last us 15 years and is nearly fully paid for
- Above 90% of our new contract sales are done before the project completion

St. Petersburg

Net unsold area, m ²	
Elite	
Russkiy Dom	30,219
Smolny Park	23,758
Business Class	
Europe City	45,339
Tri Vetra	41,971
Mass Market	
Tsvetnoy Gorod	2,960,380
Rzhevka	1,025,000
Civilization	823,524
Novaya Okhta	333,934
Shuvalovsky	296,978
Ruchyi - 7	211,421
Kalina-Park	197,351
Yuzhnaya Aquatoria	141,741
Other	235,687
TOTAL	6,411,008

Moscow

Net unsold area, m ²	
Business Class	
ZILART	963,896
ZIL South	507,782
Leningradskoe Shosse	57,500
Donskoy Olymp	38,416
Mass Market	
Luchi	476,359
Nakhabino Yasnoe	86,021
Other	33,058
TOTAL	2,163,032

Ekaterinburg

Net unsold area, m ²	
Mass Market	
Khrustalniye Klyuchi	191,909
Michurinsky	147,818
VIZ	142,250
Akademichesky	212,000
Other	153,163
TOTAL	847,140

* The table indicates recent changes in portfolio that occurred after the valuation date.



ZIL (ZILART + ZIL South)

Land plot – 65 ha
 Total NSA – 1,500 th m²
 Start of pre-sales – Sep 2015
 Completion – 2025+
 Already sold – 58 th m²*

- Largest brownfield redevelopment project in Moscow
- Attractively located along the Moscow River just 5km and 3 metro stops from the Kremlin and Red Square.
- Unique high-end project with advanced architecture and planning concepts from top Russian & foreign design bureaus.
- ZILART will be developed by LSR, and ZiL-South, to be jointly developed by LSR and AFK Sistema.

Tsvetnoy Gorod

Land plot – 429 ha
 Total NSA – 2,960 th m²
 Start of pre-sales – June 2016
 Completion – Dec 2025



- Large-scale real-estate project implemented within a comprehensive development plan offers higher quality of living.
- Comprehensive social and transport infrastructure
- Attractive location with easy access to city



Civilization

Land plot – 60 ha
 Total NSA – 824 th m²
 Start of pre-sales – March 2016
 Completion – 2026
 Already sold – 26 th m²*

- The only large-scale project in St.Petersburg overlooking Neva river
- Walking distance to all necessary infrastructure
- A rare case of construction of large-scale residential complex in the well-developed neighborhood
- A unified development concept creates a self-sufficient urban area

* In 2016.

Recent changes:

- We have started developing projects as single urban areas with comprehensive infrastructure which improve the quality of living and status of the district
- We implement leading solutions in indoor and outdoor quality
- We employ leading architects and choosing best locations
- We implement innovative technological solutions
- We use customer feedback in CRM system to continuously fine tune the quality of indoor finish in mass-market

Outlook:

- Ruble prices have been stable for the last two years, and we are expecting their gradual growth in the foreseeable future
- Moscow and St.Petersburg markets demonstrate resilient dynamics in spite of the overall recession, and we expect them to grow further with the stabilization of the economy
- To outperform the market, we will focus on enhancing our product offering, improve quality of indoor and outdoor finish which increase added value



BUILDING MATERIALS



- As a market leader with unrivaled access to infrastructure and resource base, we expect to comfortably maintain dominant positions
- We consider building materials segment a source of predictable revenue inflows and high EBITDA margins of up to 35%
- Our production facilities are fully modernized thanks to a substantial investment program of over RUB 14 bn in 2007-2015
- Looking ahead, building materials lost their strategic priority to us and we will be limiting further capex to maintenance levels
- We are reassessing our asset base for potential disposal of non-core assets



Key Competences

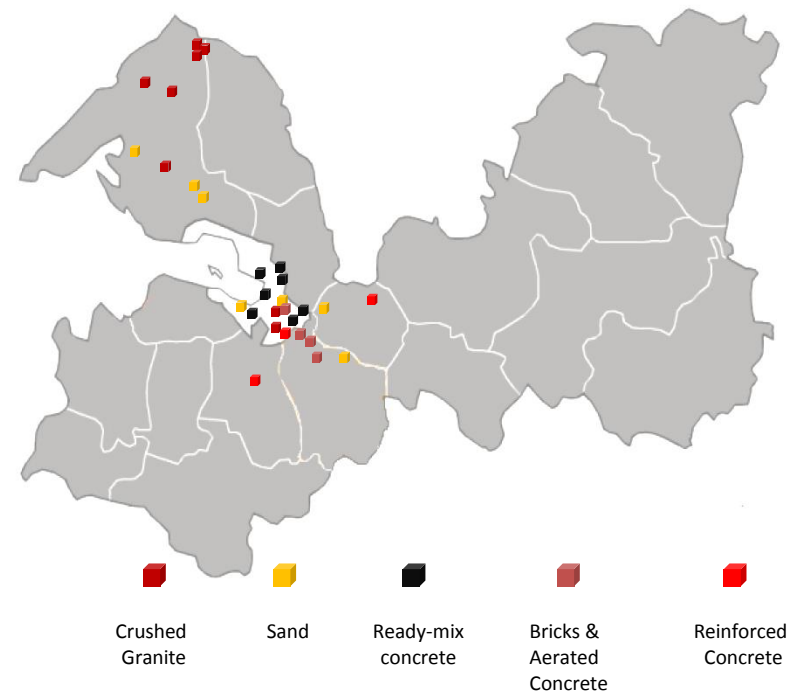


- We are trend setters and market makers in every building materials' market of operation
- We operate one the largest brick factories in Europe and export our bricks to Germany, Finland, Kazakhstan
- We boast the most innovative products in our brick and aerated concrete product lines in Russia
- We have the best infrastructure and the largest resource base in aggregates in the North-West region
- Strong brand awareness allows us to charge a price premium of up to 10% to competitors in certain products

Production capacities

Building Materials & aggregates	Capacity
Ready-mix concrete	1 947 000 m ³
Bricks	450 mln
Aerated concrete	1 350 000 m ³
Reinforced concrete	570 000 m ³
Sand	22 mln m ³
Crushed granite	8.1 mln m ³

Map of facilities in North-West region



Recent changes:

- We have started gradual disposal of selected assets, with cement factory in 2015
- We decided on geographical expansion of our brick sales through nationwide deliveries and new dealership contracts
- We will be expanding our aerated concrete production following strong demand for our products

Outlook:

- We expect building materials to demonstrate mixed dynamics and remain under pressure from contraction in construction activity
- Our market positions, unique asset base, and strong track record should continue to provide sustainable support to our sales
- Aggregates sales have potential to continue to perform well on the back of ongoing infrastructure projects
- Brick markets should recover later in 2016, once projects across the market enter later stages of construction
- Ready-mix concrete and reinforced concrete are expected to exhibit no change from current dynamics
- In product segments with highest added value we are focusing on maximization of profitability and diversification of our client base
- In product segments with lowest growth potential, we will continue cost optimization and are looking to exit selected assets



CENTRALIZED SALES & PROCUREMENT



- Sales and procurement are now centralized and managed within one functional commercial division

Sales:

- Sales targets are defined by financial strategy and are focused on delivering stable forecastable growth
- Development and sales function are closely intertwined to ensure revenue maximization due to balance between sales and construction' schedule
- We are focusing on expansion of direct sales' channels, maximizing the ways of reaching our customers
- We implemented high price differentiation strategy, allowing us to smoothen out sales schedule, manage inventories throughout the project timeline and improve average pricing

Procurement:

- We have launched a centralized online procurement system for all product supplies within the company
- We are using various online tender platforms
- We intend to start centralized procurement of services in 2017
- Tender itemization is undergoing a company-wide standardization ensuring higher quality procurements at more favorable terms

- With presence in 3 largest cities and all market segments, we can cater to the most diverse customer needs
- Our sales network reaches out to all key regions in Russia
- Our homes are in demand across the country, with 40% of sales coming from non-locals
- Customers can purchase a mortgage from 21 of our partner banks, that represent over 85% in banking system by mortgage volume

Current map of regional sales network





**HUMAN RESOURCES &
ORGANIZATIONAL DEVELOPMENT**



Enhancing business efficiency through organizational efficiency and HR function excellence:

- Regularly revisiting organizational and governance model:
 - Functional vs. regional, centralization vs. decentralization aiming headcount and costs optimization and increased productivity
 - Q3-Q4 2016 – review of centralized functions within LSR Management Company
 - 2017 – focus on business units efficiency, assessing value added of harmonized structures vs. local deviations
- Supporting automation initiatives with timely sourcing and training and optimal cost management
- HR is to be transformed from an administrative function into a valuable strategic partner and transactional expert

Strengthening organizational capabilities and driving consistently high performance via:

- Setting up a talent management system:
 - Aimed at sustainable succession and manpower planning
 - Focused on internal development and rotation with selected external talent acquisitions
- Adding step change value:
 - 2016 – reset of the Executive Committee and staffing of top management positions
 - 2017 – launching a new motivation system for key management

Maximizing employee engagement via unified system of corporate values:

- Setting up a clear, single system of corporate values and consistently communicating it to all 15 500 employees via 360 degrees internal communications
- Strengthening every corporate message through an integrated communications field encompassing HR, PR and IR

Key changes:

- Long-term motivation program (LTMP) is ready to be launched in 2017
- Transitional motivation program has been in place for 2016 (with certain elements of LTMP such as focus on net income, bonus pools structure etc.)

Key goals of the new program:

- Alignment of management motivation with shareholder interests through focus on predictable growth of normalized net income (NNI) and free cash flow as a basis of quasi-fixed income investment strategy:
 - Progressive growth: bonus pools are available subject to y/y growth of NNI
 - Improved predictability and forecastability of financial results: focus on budget discipline and sustainable growth (smoothened delivery pace of real estate projects)
- Efficiency and effectiveness:
 - Variable part of compensation (bonus) driven by individuals' KPIs is to become larger than the fixed one (salary)
- Corporate entrepreneurship:
 - Focus on bottom line growth, as opposed to formal compliance with budgets/sales' targets
 - Bonus pools are formed based on a universal (one for all) % y/y increase in NNI generated by each business unit
- Self-regulated system:
 - Supports our group functional-regional organizational structure: bonus pools are both cascaded downwards and allocated laterally to adjacent functions (e.g. a legal team working both for Real Estate and Building Materials gets a proportion of its bonus allocated from both business units)
 - Full alignment of priorities between business units and the management company
- Engagement and continuity: motivation system is expanded to CEO-3 level (from 22 to 135 people)
- Contained bureaucracy: bias towards result, not rituals



Q&A SESSION



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