



Real value in a changing world

Valuation *Advisory*

AFI DEVELOPMENT PLC

Valuation of:

Plaza Ila (Part of Tverskaya Zastava Development)

1 Butyrsky Val, Moscow

December 2011



Executive Summary

Property Address

1 Butyrsky Val, Moscow

Description

The subject property comprises the development of Class A offices and parking for 69 cars. The total development site area is 0.17 hectares. It is envisaged that there will be parking on the two underground levels, the retail accommodation will be at ground floor level while the upper floors will be devoted to office use. Projected gross building area comprises 10,500 sq m.

Completion of construction is envisaged in Q3 2014.

The subject property named as Plaza Ila is a part of the larger scheme of the redevelopment of Tverskaya Zastava Square which will include the following phases:

- Plaza Ic – the part of the Plaza I development which included a mixed-use development to include Class A offices, retail accommodation, residential apartments and parking for 519 cars with total area 51,200 sq. m.
- Plaza 1b - the part of the Plaza I development which included 5-star hotel, residential apartments and parking for 448 cars with total area 61,496 sq. m.
- Plaza II - Office building located at the address: Gruzinsky Val Street 31, Moscow. The site area is 0.57 ha with a projected gross building area of 55,030 sq m.
- Plaza II-a - Office building located at the address: Butyrsky Val Street, 1, Moscow. The site area is 0.17 ha and the projected gross building area is 10,500 sq m.
- Plaza IV - a multifunctional development which will be located at Gruzinsky Val, 11, Moscow and include Class A offices, retail accommodation and underground parking for 1,210 cars. The site area is 1.33 ha and the projected gross building area is 108,000 sq m.

Location

The subject property is located in the Tverskoy district of Moscow, which is both a cultural and business district of the city, situated to the north-west of the city centre. Tverskoy forms part of Moscow's Central District and is located between one of the city's main railway stations, Belorussky Station, and Manege Square.

The Tverskoy district is a particularly important transport hub, containing the main route linking the city centre with one of Moscow's main airports, Sheremetevo International Airport. There are a number of main traffic routes running through Tverskoy, and these include Tverskaya, 1st Tverskaya-Yamskaya, Dolgorukovskaya and Novoslobodskaya. There is therefore a high volume of vehicular traffic and the district currently has a severe shortage of parking facilities and, given the housing density, this is only likely to be addressed with the provision of underground car parks. In terms of public transport, Tverskoy offers a total of 11 Metro stations.

Tenure - Land

In accordance with the Decree of the Moscow Town-planning and Land Commission No 46 as of 10 November 2011, the subject land plot is granted to 'Avtostoyanka Tverskaya Zastava' which, as we understand from the Client, is affiliated with 'Africa-Israel Investments Ltd.', for the lease for construction purposes with a preliminary approval of location.

As at the valuation date there is no land lease agreement for the entire site under Plaza Ila development.

Tenure - Building

'Stroyincom-K' possesses the rights for designing and construction of the proposed development, which comprises a Class A office development located at the address: 1 Butyrsky Val, Moscow. The site area is 0.17 ha. Projected gross building area comprises 10,500 sq m.

The functions of investor and developer are executed by the following companies, which are affiliated with 'Africa-Israel Investments Ltd.':

- Investor – 'Avtostoyanka Tverskaya Zastava' LLC;
- Developer – 'Stroyincom-K' LLC.

As at the valuation date the Investor has 634.7 sq m area in ownership within the existing building located currently on the subject site.

Upon completion of development 100 percent area of the completed building will be passed into the ownership of the Investor and the long-term land lease rights.

Valued Interest

In our valuation, we have valued the freehold of the completed buildings and lease rights to the site.

Development Assumptions

- Completion of development in Q3 2014
- Total development budget: \$20,009,000 (excluding VAT)
- Outstanding development budget: \$17,170,000 (excluding VAT)

Net Operating Income

\$7,339,000 per annum

Terminal Capitalisation Rate

9.00 percent

Key Attributes

We would highlight the following key attributes in respect of the subject property.

- The specifications of the property will correspond to Class A office buildings.
- Location in the prime district of the city – Tverskoy, which is an established business destination with well-developed infrastructure where office rents are among the highest in the city.
- The property has easy access to major thoroughfares of the city – Leningradsky Prospect, the Garden Ring and the Third Transport Ring. Location near to Leningradsky prospect which is a direct route to Sheremetievo International Airport.
- The property has very good accessibility by public transport since its location in close proximity to the metro.
- As at the valuation date the market has stabilised in terms of commercial rents and yields.

Principal Risks

We would draw your attention to the following main risks in respect of the subject property.

- Access to the property during rush hours is difficult due to regular congestions in Tverskaya Zastava Square and Leningradsky Prospect.
- The development is in early stage, with the concept and the development volumes, which has to be approved with the city authorities.

Valuation as at 31 December 2011

\$34,700,000

(Thirty Four Million Seven Hundred Thousand US Dollars)

Our ref RU4873
Direct line +7 (495) 737 8000
Direct fax +7 (495) 737 8011
Chris.Dryden@eu.jll.com

1 March 2012

Dear Sir

Terms of Reference

Addressee: AFI Development PLC
25 Olympion Street
3035 Limassol
Cyprus

For the attention of Mr Mark Groysman
Chairman of AFI Rus and Stroyinkom-K

Property Address: 31 Gruzinsky Val, Moscow

Client: AFI Development PLC

Tenure: **Building**

'Stroyincom-K' possesses the rights for designing and construction of the proposed development, which comprises a Class A office development located at the address: 1 Butyrsky Val, Moscow. The site area is 0.17 ha. Projected gross building area comprises 10,500 sq m.

The functions of investor and developer are executed by the following companies, which are affiliated with 'Africa-Israel Investments Ltd.':

- Investor – 'Avtostoyanka Tverskaya Zastava' LLC;
- Developer – 'Stroyincom-K' LLC.

As at the valuation date the Investor has 634.7 sq m area in ownership within the existing building located currently on the subject site.

Upon completion 100 percent area of the completed building will be passed into the ownership of the Investor following the payment by the Investor for the long-term land lease rights.

Land

In accordance with the Decree of the Moscow Town-planning and Land Commission No 46 as of 10 November 2011, the subject land plot is

granted to 'Avtostoyanka Tverskaya Zastava' which, as we understand from the Client, is affiliated with 'Africa-Israel Investments Ltd.', for the lease for construction purposes with a preliminary approval of location.

As at the valuation date there is no land lease agreements for the entire site under Plaza Ila development.

Valuation Date: 31 December 2011

Purpose of Valuation: We understand that this valuation report is required in accordance with IFRS regulations for the purposes of your company accounts and specifically for the purpose of implementing Accounting Standard No.15 of the Institute of Certified Public Accountants of Israel.

Basis of Valuation: Our valuation has been prepared in accordance with the RICS Valuation Standards (7th Edition) published by the Royal Institution of Chartered Surveyors on the basis of Market Value as defined in Appendix 5 of this report.

The report is subject to, and should be read in conjunction with, the attached General Terms and Conditions of Business and our General Principles Adopted in the Preparation of Valuations and Reports, which are attached in Appendix 4.

No allowance has been made for any expenses of realisation, or for taxation (including VAT), which might arise in the event of a disposal, and the property has been considered free and clear of all mortgages or other charges, which may be secured thereon.

It is worth noting that our valuation of the Property has been based on the assessments and circumstances stipulated herein. However, it should be emphasized that the price of a real transaction may differ from our estimated value due to a number of different factors, which include intentions of the parties, their negotiating skills, special (e.g. financial ones) terms of the transaction and other factors which may directly refer to the specific deal. Thus, in case of a non-cash transaction or credit sale of the Property, the sale price will be subject to increase. In our valuation, no allowances are made for the above or any other special terms or circumstances that may entail inflation or deflation of the price.

**Personnel and Date of
Inspection:**

The valuation has been prepared by Linda Amirova MRICS under the direction of Chris Dryden MRICS, Director, Russia & CIS. The property was inspected in January 2010.

We confirm that the personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards.

Status:

In preparing this valuation we have acted as external valuers.

Sources of Information:

We have carried out all the necessary enquiries with regard to rental and investment value and market value, and have investigated planning and approval issues of the subject property.

Valuation:

\$34,700,000 (Thirty Four Million Seven Hundred Thousand US Dollars)

Purchaser's Costs:

In accordance with investment and valuation practice in Russia, no allowance has been made for purchaser's costs in our valuation.

The Directors
Africa Israel Investments Ltd
4 HaHoresh Street,
Yahud, Israel

For the Attention of: The Directors of AFI Development PLC

1 March 2012

Dear Sirs

Plaza Ila development

Reference is made to the appraisal report prepared by us in connection with the property known as Plaza Ila development dated 1 March 2012 (the '**Report**').

In addition to the analyses, assumptions, opinions and conclusions set forth in the Report we hereby represent and confirm as follows:

1. We were contacted and requested by you, on behalf of Africa Israel Investments Ltd, to prepare the Report.
2. Our Report is given as part of the implementation of the International Accounting Standard 40 (IAS 40 - investment property) and for purposes of implementing Accounting Standard 29, which adopts the International Financial Reporting Standards (IFRS), in the financial statements of Africa Israel Investments Ltd.
3. From time to time, we provide real estate appraisals and evaluations to other companies within the Africa Israel Investments Ltd group; however, our firm is independent of this company or any company controlled by this entity.
4. We hereby represent that we do not have any personal interest in the contemplated asset and/or in its owners, and the appraisal thereof hereunder has been prepared by us in accordance with our best and professional knowledge, skills and consideration.
5. We hereby agree that our Report, together with this letter, be included in the Africa Israel Investments Ltd.'s publicly published financial statements for the period ending 31 December 2011, which will be published in March 2012.

The above mentioned in this letter shall constitute for all purposes as an integral part of our Reports.

Yours faithfully,

Chris Dryden BLE MA MRICS
Director
On behalf of Jones Lang LaSalle



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1 Location

1.1 Location

The subject property is located in the Tverskoy district of Moscow, which is both a cultural and business district of the city, situated to the north-west of the city centre. Tverskoy forms part of Moscow's Central District and is located between one of the city's main railway stations, Belorussky Station, and Manege Square.

The Tverskoy district is a particularly important transport hub, containing the main route linking the city centre with one of Moscow's main airports, Sheremetevo International Airport. There are a number of main traffic routes running through Tverskoy, and these include Tverskaya, 1st Tverskaya-Yamskaya, Dolgorukovskaya and Novoslobodskaya. There is therefore a high volume of vehicular traffic and the district currently has a severe shortage of parking facilities and, given the housing density, this is only likely to be addressed with the provision of underground car parks. In terms of public transport, Tverskoy offers a total of 11 Metro stations.

The location of the subject property in a city context is shown on the location map below:

In addition to being an important business district, Tverskoy provides one of Moscow's most popular entertainment, social and retailing destinations. These facilities are concentrated around a variety of squares, including Pushkin Square, Tverskaya, Triumfalnaya and Tverskaya Zastava (the latter being the exact location of the subject property).

In addition to the commercial attractions of the district, the area located immediately to the south of Tverskaya is also characterised by expensive apartments, upscale shops and boutiques and upmarket restaurants.

1.2 Micro Location and Communications

The subject property is located next to a large square known as Tverskaya Zastava, which forms the busiest traffic interchange in Moscow. The subject property's address is 1 Butyrsky Val, Moscow.

The plan shown below provides an illustration of the location of the subject property in the context of the neighbouring streets and also highlights, in red, the individual phases that will form the proposed Tverskaya Zastava redevelopment.

In terms of adjoining uses, the square is bordered from the west by a number of buildings forming the Belorussky railway station and various pavilions comprising the Belorusskaya Metro station. Along the southern boundary there is a variety of administrative buildings, while to the north there is an overpass over the Moscovsko-Smolenskaya railway line. In addition, there are a number of temporary commercial pavilions and kiosks in the area at present. Much of the immediate area belongs to a protection zone for both historic and cultural monuments.

The area immediately surrounding Tverskaya Zastava has seen considerable commercial development recently, particularly of office buildings, concentrated between the Belorusskaya, Mayakovskaya and Dinamo metro stations and there are considerable further developments planned. There are also a number of large hotels in the area, including 'Heliopark Hotel'.

Being located next to the Belorusskaya metro station, the property has excellent public transport accessibility. The accessibility of the property by car is also good; however it is worth mentioning that during the rush hours the traffic along Tverskaya Street and Leningradsky Prospect is difficult.

The accessibility to the property for cars will improve with the completion of the reconstruction of Leningradsky Prospect. The works were started in 2006 and include the reconstruction of the existing Leningradsky car tunnel, construction of Volokolamsky tunnel with three lanes in each direction, and a length of 1730 m, construction of a tunnel from Alabyana Street and Bolshaya Akademicheskaya Street with three lanes in each direction, over a length of 2015 m (under construction), as well as the construction of an overpass connecting Leningradsky Prospect and Volokolamskoje Highway, which is completed.

In addition, the traffic flows passing through Tverskaya Zastava will be re-arranged and improved as soon as the new transport interchange is constructed as part of the Tverskaya Zastava redevelopment. It is envisaged that these road infrastructure improvements will greatly enhance access to and egress from the subject development.

In undertaking the alteration of the road network, the following changes are planned:

- Reconstruction of the Tverskoy overpass on Leningradsky Avenue, including a widening of about 7.0m, together with the construction of two tunnels beneath Leningradsky Avenue. The first tunnel, with three lanes of traffic, will link Butyrsky Val with Lesnaya Street and then run in the direction of Gruzinsky Val. The second tunnel will be a four lane carriageway from 2nd Brestskaya Street and Gruzinsky Val towards Butyrsky Val and Leningradsky Avenue running in the direction of the city centre.
- Construction of a slip road from Leningradsky Avenue down to 1st Brestskaya, which will be a three lane carriageway in the direction of the city centre.
- Construction of an access road to Leningradsky Avenue for traffic travelling towards Moscow Region from Butyrsky Val.

- Construction of an access road to Leningradsky Avenue for traffic in the direction of Moscow Region from 2nd Brestskaya Street towards Butyrsky Val beneath the Tverskoy overpass.
- Construction of a slip road accessing a drop off area for Belorussky railway station and also providing access to the underground parking levels.
- Construction of a 4.50m wide pedestrian bridge passing across the railway lines on the even side of the road.

The entire traffic interchange as proposed is shown on the plan below:

In addition to the alteration to the road network, there will be seven pedestrian subways constructed.

2 Description

2.1 Site

In accordance with the Decree of the Moscow Town-planning and Land Commission No 46 as of 10 November 2011, the subject land plot is granted to 'Avtostoyanka Tverskaya Zastava' which, as we understand from the Client, is affiliated with 'Africa-Israel Investments Ltd.', for the lease for construction purposes with a preliminary approval of location.

As at the valuation date there is no land lease agreement for the entire site under Plaza Ila development.

As at the valuation date the part of the subject site is occupied by the existing residential building subject to further demolition. The building address is 1 bld. 1 Butyrsky Val, Moscow.

2.2 Description of Development

The subject property comprises the development of Class A offices and parking for 69 cars. The total development site area is 0.17 hectares. It is envisaged that there will be parking on two underground levels. Projected gross building area comprises 10,500 sq m. It is envisaged that there will be parking on two underground levels and there will be three above-ground levels.

A more detailed breakdown of this development, which is based on the information provided by the Client, is set out below:

Table 1. Plaza Ila areas breakdown

Parameters	Units of measure	
Gross building area	sq m	10,500
Offices		8,000
Underground area	sq m	2,500
Parking spaces	units	69

The areas given in the table above are provided on a gross basis, for the purpose of the valuation we have estimated the net areas based applying a 5 percent loss factor.

On the basis of the above, we have based our valuation on the following breakdown of areas:

Table 2. Plaza Ila areas breakdown for the calculation

Plaza Ic	Units of measure	Leasable/ saleable area
Offices	m ²	7,600
Car parking	units	69

In terms of timing, at present, the following construction timetable is envisaged for this development.

Table 3. Proposed development timing

Stage of Development	Timing
Design preparation, getting approvals and permissions	Q4 2011 – Q1 2013
Construction	Q2 2013 – Q3 2014

3 Legal

3.1 Tenure

We have been provided with the following documents relating to the property:

1. Decree of the Moscow Town-planning and Land Commission No.46 dated 10 November 2011.
2. The land lease agreement M-01-513897 dated 10.11.2006.
3. List of premises in ownership in the building standing currently on the subject site.
4. Concept stage documentation.

Based on the documents and information listed above, we arrived at the following conclusions, which we have used as the basis for our valuation:

- 'Stroyincom-K' possesses the rights for designing and construction of the proposed development, which comprises a Class A office development located at the address: 1 Butyrsky Val, Moscow. The site area is 0.17 ha. Projected gross building area comprises 10,500 sq m.
- The functions of investor and developer are executed by the following companies, which are affiliated with 'Africa-Israel Investments Ltd.':
 - Investor – 'Avtostoyanka Tverskaya Zastava' LLC
 - Developer – 'Stroyincom-K' LLC
- As at the valuation date there is a freehold interest of "Avtostoyanka Tverskaya Zastava" in the residential premises in the existing building with the total area 637.4 sq m located at 1 bld. 1 Butyrsky Val, Moscow.
- In accordance with the Decree of the Moscow Town-planning and Land Commission No 46 as of 10 November 2011, the subject land plot is granted to 'Avtostoyanka Tverskaya Zastava' which, as we understand from the Client, is affiliated with 'Africa-Israel Investments Ltd.', for the lease for construction purposes with a preliminary approval of location.
- Upon completion the Investor will get ownership for 100 percent of the building areas following the payment by the Investor for the long-term land lease rights.
- As at the valuation date there is no land lease agreement for the entire site under Plaza Ila development.
- As at the valuation date the subject property has been at the stage of adoption of a resolution on preliminary approval of the location of Class A offices and parking for 69 cars. In our valuation we have made an assumption that the development concept that was provided to us for this phase will be definitely agreed and approved by the city authorities.

Jones Lang LaSalle has not carried out any legal expertise of the title and information provided by the Client. We have not been provided with a Report on Title in respect of this property and recommend that should such a report be prepared that we be provided with a copy and given the opportunity to reconsider our opinion of value in light of its contents.

In our valuation, we have valued the freehold of the completed building and lease rights to the site.

3.2 Town Planning

We are not aware of any outstanding planning applications or decisions granted on the subject property that are likely to have a material impact on the value.

3.3 Environmental Matters

No indications of past or present contaminative land uses were noted during the inspection. Our inspection was only of a limited visual nature and we cannot give any assurances that previous uses on the site or in the surrounding areas have not contaminated subsoil or ground waters. In the event of contamination being discovered, further specialist advice should be obtained.

3.4 Marketing Period

Proper marketing ensures that the marketing period (exposure time) for the Property will constitute no less than 12 months. Our conclusion is supported by a number of brokers who are actively participating in transactions (sale) with comparable assets.

4 Highest and Best Use Analysis

The highest and best use (HBU) of a real estate asset is the one that is physically possible, legally permissible, financially feasible, and must result in the highest value.

For valuation purposes, a real estate property may be considered as two separate constituents, which are the land plot and its improvements (buildings, developments, utility lines, etc. constructed on it or under it); therefore, in estimating a real estate property, appraisers estimate the highest and best use of land (as if vacant) and the highest and best use of the property (as improved). Estimation of each of the HBU types requires a separate analysis. However, as one can see, both are estimated under the following four criteria:

- legality;
- physical possibility;
- financial feasibility, and
- highest profitability.

Any use of a real estate asset shall be viewed from the above four points, which are to be applied in that order. In the event that some potential use option does not meet any of the four criteria, such an option shall be disregarded and replaced with another one. The HBU shall meet all of the above four criteria.

Based on Decree of Moscow Town-planning and Land Commission No.46 as of 10 November 2011 the subject land plot has been granted to the developer for the construction of the office center. This means that, from a legal perspective, the asset envisages only one function. Based on that and also based on the site characteristics, we are of the opinion that the suggested development concept of the site represents its highest and best use.

5 Market Commentary

5.1 Russian Economic Overview

Expectations for the global economy, while still uncertain and looking comparatively more stable, with Europe being the center of attention. However positive movement in the US employment rate has also been observed. Overall, the current slowdown is predicted to be much milder than 2008-2009 recession. IHS Global Insight predicts global GDP growth at 2.7% in 2012, down from 3% last year. Nevertheless, uncertainty remains pronounced and risks will be on the downside of the current view as long as the Eurozone debt crisis persists. Recent credit downgrades for a number of economies, including France, only add to the problem. Moreover, the European banking sector is also feeling the strain. Interbank rates have risen to post-Lehman's highs as investors withdraw and the risk of another credit crunch looms.

Table 4: 2012 GDP Forecast from IHS Global Insight: Recent Movements

Date of forecast	France	Czech Republic	Poland	Germany	UK	China	Russia	Japan	USA
Nov 2012	0.2	1.3	2.8	0.8	0.8	8.1	3.9	2.6	1.6
January (latest)	-0.7	0.4	2.0	0.2	0.3	7.9	3.7	2.9	2.0
Change (bsp)	-90	-90	-80	-60	-50	-20	-20	30	40

The most obvious obstacle for the Russian economy is the ongoing sovereign debt crisis in Europe, which is preventing growth by depressing exports and investment flows. Although IHS Global Insight decreased Russia's GDP forecast by 20 BPS, to 3.7% in 2012, the Russian economy still looks healthier compared to some other countries and is better positioned to withstand the shock than it was in 2008.

According to Rosstat's preliminary estimate, Russian GDP expanded 4.3% YoY in 2011 vs. 4.0% in 2010. The pace of industrial production growth moderated to 2.5% in December, posting annual growth of 4.7% YoY in 2011 compared to the recovery of 2010. Recent upward performance of fixed investments and construction sectors, which is expected to continue, will add up to 2012 economy growth.

Graph 1: Real GDP growth: International comparison, YoY

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

Graph 2: Construction and fixed investments growth

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

Consumer sector continues to be the major driver of Russia's economic growth in 2011, with retail sales up 7.2% YoY in 2011. Consumer demand will grow further after the government increase wages and pensions in the public sector and the military. Moreover, recovered consumer lending and declining inflation will provide support to retail sales.

Graph 3: Real wages and retail sales growth, YoY

Graph 4: Consumer loans issued in Russia

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

In 2011 Russia made a significant step in WTO accession and tightening integration within the CIS. WTO accession is to be completed by mid-2012, which in the longer term is expected to spur structural reforms, vital for the Russian economy and FDI growth. Customs Union of Russia, Belarus and Kazakhstan eliminated their

customs borders. Moreover, on the way to the Eurasian Union, members agreed to create the Common Economic Area, aimed at freedom of movement for labour, capital, and goods, also beneficial for Russia's economic growth.

Table 5. Key macroeconomic indicators

	2010	2011	2012F
Nominal GDP (USD bn)	1,480	1,852	2,107
Real GDP growth (%)	4.0	4.3	4.1
Unemployment (% year-end)	7.2	6.1	6.5
CPI (%)	8.8	6.1	5.8
Exchange rate (RUB/USD, year-end)	30.48	32.2	30.5
Real wage growth (% YoY)	4.2	3.5	5.0
Retail trade turnover (USD bn)	541	650	750
Real retail sales growth (% YoY)	4.4	7.2	5.5
Urals oil price (USD/barrel, year-end)	91.2	105.7	100.0
FDI into Russia (USD bn)	41.2	40.0(E)	50.0
International Reserves (USD bn)	479.4	498.6	590.0

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

5.2 Moscow Economy

Moscow is the largest economic, political, and scientific centre of Russia. The city's wealth of scientific, technical and industrial potential forms the basis of its economy. Many large industrial enterprises that operate within the city represent various industry sectors, including engineering, metalworking, building materials, and defence. Moscow is also one of the largest transportation centres in Russia and Eastern Europe. Banking and finance are also important sectors of Moscow's economy.

During the last several years Moscow was attracting significant international investor interest due to its wealth of opportunities, improving business environment, attractive recent economic performance, positive short-term outlook and substantial long-term growth potential. Moscow still remains the most attractive Russian city in terms of direct investment.

Population

Moscow is Europe's largest city in terms of population, and ranks alongside London, Paris and Istanbul as one of Europe's four "Mega-Cities". The City has an official population of 11.6 million, with a further 7.1 million housed in the surrounding Moscow Region, creating a greater metropolitan region of 18.7 million inhabitants. Whilst the CEE region and Russia have seen their populations decline (largely due to low birth rates and migration), Moscow stands alone as the only major city in the region whose population is growing rapidly.

Graph 5. Moscow Population Dynamics

Source: Rosstat

Key economic indicators

Being the economic centre of Russia, Moscow provides significant part of Russia's Gross Economic Product (about 22% of total GRP). Moscow economy is characterized by actively developing service sector, low debt and high budget indicators.

Graph 6. GDP growth, Moscow vs. Russia (%)

Source: Rosstat, Department of Moscow Economic Policy and Development

During recent years Moscow macroeconomic indicators were growing steadily. In 2002-2007 average annual GRP growth was 9.6%, real income growth – 10%, retail turnover growth – 5.6%. All these indicators were supplemented by strong government finance. At the end of 2008 the crisis hit the economy and led to the slowdown in city development. However, after a sharp decline of major macroeconomic indicators through Q4 2008 – Q2 2009, Moscow economy has been reviving since H2 2009.

Table 6. Moscow key economic indicators

Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2011
GRP YoY, %	8.8	7.2	12.5	10.7	8.3	7.7	-12.8	5.0	4.0 (E)
Inflation, %	10.4	11.5	10.4	9.0	10.2	12.3	9.8	9.1	6.4
Retail trade real growth YoY, %	4.1	8.3	6.2	7.1	5.1	5.3	-4.0	6.8	6.6
Retail trade turnover, RUB bn	1,179	1,370	1,586	1,818	2,040	2,366	2,502	2,882	3,322

Source: Rosstat, Department of Moscow Economic Policy and Development

In 2007 Moscow GRP grew by 8.3%. In 2008 the city economic growth rate slowed down to 7.7% followed by 12.8% decline in 2009, according to Rosstat estimate, due to the world financial crisis. However, in 2010 Russian economy recovered with Moscow GRP increased by 5% according to Department of Economic Policy and Development of Moscow. In 2011 Department of Economic Policy and Development of Moscow estimates Moscow GRP growth to slow down to 4%.

The Moscow retail turnover reached USD79 billion in 2009 that is 4% lower than in 2008 in real terms. However in 2010 Moscow retail has been reviving rapidly, showing higher than average growth rates among Russian regions. Moscow retail turnover increased to USD95 billion in 2010. According to Rosstat, retail trade real growth slightly moderated to 6.6% in 2011 from 6.8% in 2010.

Income distribution of Moscow residents is quite uneven. The wealthiest population groups are concentrated in the City centre and in the semi-peripheral Western parts of the City.

In 2009 average per capita monthly income in Moscow reached USD1,417, while in 2010 it went up to USD1,516. It moderated to USD1,400 in January-November 2011.

The unemployment rate in Moscow is the lowest among Russian regions and it amounted to 2.7% at the end of 2009 and shrank to 1.7% in 2010. In October – December 2011 unemployment rate in Moscow decreased to 1.1% vs. 6.3% in Russia.

In 2011 inflation has noticeably decreased both in Moscow and Russia, ending the year at 6.4% and 6.1% respectively, compared with 9.1% and 8.8% in 2010. Though generally Moscow consumer inflation is slightly lower, than in Russia.

Graph 7. Moscow retail turnover and income

Source: Rosstat

Foreign investments into Russia were increasing at a rapid pace. The capital inflow reached record levels (USD82.3 billion) in 2007. A large portion was coming as FDI, which reached USD75 billion in 2008 vs. USD55 billion in the previous year. Moscow took a significant share of the total FDI volume, with the investment primarily focused on retailing, followed by real estate, transport and communications, as well as the finance and banking sectors. FDI growth rates declined significantly in 2009 due to the financial crisis influence and reached only USD37 billion in Russia with very strong positions of the Moscow region. The improving economic situation encouraged more inflows in 2010, to USD41 billion. In 2011 FDI in Russia is expected to reach USD40 bn.

Due to current globally growing risks and approach of presidential elections Fitch rating agency revised its outlook for Moscow's long-term and foreign currency rating to stable in 2011. Standard & Poor's Rating Agency confirmed Moscow's long-term and foreign credit rating BBB and also retained its stable forecast.

5.3 Real Estate Investment Market

Expectations for the global economy continue to be gloomy, with Europe being the main focus of concern. The most notable exception to recent trends has been the US, where a good employment data has been published. Overall, the current slowdown is predicted to be much milder than 2008-09 recession. IHS Global Insight predicts global GDP growth at 2.7% in 2012, down from 3% last year. Nevertheless, uncertainty remains pronounced and risks will be on the downside of the current view as long as the Eurozone debt crisis exists. Recent credit downgrades for a number of economies, including France, only add to the problem. Moreover, European banking sector is also feeling the strain. Interbank rates have risen to post-Lehman's highs as investors withdraw and the risk of another credit crunch looms.

The most obvious obstacle for Russian economy is the ongoing sovereign debt crisis in Europe, which is preventing growth by depressing exports and investment flows. Although IHS Global Insight decreased Russia's GDP forecast by 20 BPS, to 3.7% in 2012, Russian economy still looks healthier compared to some other countries and is better positioned to withstand the shock than it was in 2008.

Graph 8. Real GDP growth: International comparison, YoY

According to Rosstat preliminary estimate, Russian GDP expanded 4.3% YoY in 2011 vs. 4.0% in 2010. The pace of industrial production growth moderated to 2.5% in December, posting annual growth of 4.7% YoY in 2011 compared to recovery of 2010 with 8.2% growth. Recent upward performance of fixed investments and construction sectors, which is expected to continue, will add up to 2012 economy growth.

Graph 9. Construction and fixed investments growth

Consumer sector continue to be the major driver of Russia's economic growth in 2011, with retail sales being up 7.2% YoY in 2011. Consumer demand will grow further after the government increase wages and pensions in the public sector and the military. Moreover, recovered consumer lending and inflation decline will provide support to retail sales.

Graph 10. Consumer loans issued in Russia

In 2011 Russia made a significant step in WTO accession and tightening integration within the CIS. WTO accession is to be completed by mid-2012, that in longer term spurs to structural reforms, vital for the Russian economy, and FDI growth. Customs Union of Russia, Belarus and Kazakhstan eliminated their customs borders. Moreover, on the way to the Eurasian Union, members agreed to create the Common Economic Area, aimed at freedom of labour, capital, and goods movement, beneficial for Russia's economic growth.

Investment volume into real estate was record high in Russia, with the total volume of closed deals up 73% YoY in 2011, to USD8.4 bn. Commercial real estate investments doubled in 2011 vs 2010, to USD8.3 bn. We expect slightly lower real estate investment volume this year, at USD6.5 bn. Anyway, it will be higher than pre-crisis annual volumes.

Graph 11. Investment volume dynamics, USD bn*

** Investment deals, excluding corporate acquisitions, land purchases, JVs, direct residential sales to end-users*

Last year in Russia was marked by the real closures of deals that included foreign capital, with the latter accounting for 41% of the total 2011 volume, compared with 14% in 2010. We saw increased activity of international real estate investment funds on the Russian market. For example, Morgan Stanley real estate investment fund has agreed to acquire the largest shopping mall in St. Petersburg. US-based Hines Global REIT acquired Gogolevsky BC in Moscow. Jensen Group purchased Nevsky Passage, one of the oldest shopping malls in St. Petersburg.

Graph 12. Investment by deal size

Source: Jones Lang LaSalle

At the same time, local investors accounted for 58% of the total 2011 investment volume. We expect Russian investors to take a leading role on the market in 2012, while foreign investors' activity will be determined by global economic performance and political situation in Russia. In uncertain environment investors become more risk averse and suspend investing in more volatile markets while staying in local markets.

Graph 13. Investment by investor origin

Source: Jones Lang LaSalle

Sector wise, investments were bilaterally diversified in 2011. Retail and office segments attracted the bulk of investments – 40% of 2011 total investment volume each. At the same time, several large investment deals were closed in warehouse and hotel sectors to result at 5.4% and 9.7% shares respectively. For example, investment fund VTBC-Ashmore Real Estate Partners I has acquired a warehouse complex on the 8th of March Street in Moscow. Verry Capital bought Ritz Carlton Hotel in the centre of Russian capital. Moscow city authorities have sold at auction the National Hotel to Smart Finance Group, acting in the interests of businessman Mikhail Gutseriyev.

Graph 14. Investment by sector

Source: Jones Lang LaSalle

Investors are still mostly focused on prime standing assets, nevertheless with the increased availability of financing; more investments are being directed to development projects. The share of development projects increased significantly in Q2 to 26% of all completed deals from 12% in Q1. We expect interest in development assets to remain elevated, as the availability of construction financing continues to increase and due to the limited number of standing assets available for sale.

Deal size increased in 2011 compared to 2010, with 32% of transactions' number were over USD100 mn vs 23% in 2010.

Graph 15. Investment breakdown by type

Source: Jones Lang LaSalle

Table 7. Key CRE investment indicators

	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Moscow prime yields, %				
Office	9.0	9.0	9.0	9.0
Retail	9.5	9.0	9.0	9.0
Warehouse	11.0	11.0	11.0	11.0
St. Petersburg prime yields, %				
Office	11.0	10.0	10.0	10.0
Retail	11.5	10.0	10.0	10.0
Warehouse	13.5	13.5	13.5	13.5
Equity market growth, %				
RTS Index	15.5	-8.3	-29.7	3.0
VTB Capital Real Estate Index	4.1	-6.0	-39.5	-11.2

Source: CBR, Bloomberg, RTS, Renaissance Capital, Jones Lang LaSalle

Market liquidity

Overall, due to globally growing risks and approach of presidential elections country risks have increased in toward end-2011, with Russia's five-year CDS spread increased to 278 from below 200 in end-October.

During the last 4 months cost of bank financing has increased. The average rouble corporate lending rate for short-term facilities (up to 1 year) has increased to 8.8%, and the US dollar rate – to 6.1% in November 2011.

Nevertheless, Russian banks, predominantly Sberbank, continue to provide financing and extend maturity of existing debt facilities on promising under development projects. For example, Sberbank has opened a USD 394 mn credit line to ZAO International Center of Development to build a 193,000 sq m multifunctional complex in Moscow. International banks continue to provide senior debt finance for prime existing projects. Raven Russia has refinanced its two loans, extending a debt facility with Aareal bank and closing a USD83 mn refinance deal with Unicredit Bank for its Noginsk project. Raiffesenbank opened a USD55 mn credit line to Immofinanz Group to refinance its Fifth Avenue Shopping Mall. Moscow mixed-use center Prazdnik has attracted a USD30 mn seven-year refinance loan. And we are aware of several ongoing refinancing deals with the loan size of more than USD600 mn.

Despite current uncertain market conditions several Russian developers announced return to the idea of holding IPO in 2012, that were canceled due to the crisis in 2008. For example, Snegiri Development announced plans to place up to 25 pct of its shares on London Stock Exchange this year. St. Petersburg-based construction company LEK resumed IPO plans to raise enough money necessary to repay its debt to banks, starting preparation with changing its name to 'Company L1'. O1 Properties demonstrated remarkably high investment activity on Russian real estate market in 2011, continuing adding quality real estate assets to its portfolio as part of its strategy to raise its value prior to intended IPO in 2012. Though developers will take final decision this year after assessment of market conditions as due to the unstable economic situation their plans may not be realized again.

Table 8. Senior debt terms for Moscow projects in USD

	Before crisis	Crisis	After crisis
Lending rate, %	LIBOR + (3-5 ppts)	LIBOR + (10-12 ppts)	LIBOR + (7+ ppts)
LTV, %	up to 75	up to 50	up to 65
Loan size	> USD100 mn	< USD 50 mn	> USD100 mn

5.4 Office Market Overview

Supply

Approximately 166,000 sq m of new space was added to the office market in Q4 2011, bringing the total for the Moscow office market to over 13.26m sq m, including Classes A, B+, B-. Nearly 60% of all the newly completed offices that entered the market in Q4 were Class A, a notable indication that quality of workspace continues to become a priority for many occupiers. This new addition of quality space was centered around offices entering the market at the city's core. We observed:

- Imperia Tower, in Moscow City Financial District (70,000 sq m)
- Legion II Phase II, in Zone 1¹(19,400 sq m)
- Moscow Hotel (office component), in Zone 1 (9,000 sq m)

Graph 16. Take up and Completion dynamics

Altogether for 2011, new office market completions only amounted to little more than 600,000 sq m of space. This figure, when compared year-on-year, was significantly lower (34%) than in 2010.

¹ Zone 1 - inside the Garden Ring; Zone 2 - between the Garden Ring and Third Transport Ring; Zone 3 - between the Third Transport Ring and MKAD

Since the crisis office market construction has been measurably reactivated and many of the construction projects that had been previously frozen, have started to enter the market. Looking ahead, approximately 2.7m sq m are expected to be completed and delivered to the market between 2012-2014. Again, supporting the drive for higher quality office space, we note that of this 2.7m sq m, nearly half (41%) will be Class A space and 20% of this pipeline will appear in the city's core area, the Central Business District (CBD).

Notable office spaces expected to be delivered to the market in 2012 include:

- Mercury City, in Moscow City Financial District (87,600 sq m)
- ALCON, in Zone 3 (70,500 sq m)
- SkyLight, in Zone 3 (57,300 sq m)
- Aquamarine 3, in Zone 1 (52,400 sq m)
- Lighthouse, in Zone 1 (22,500 sq m)

Demand

Quality and location are becoming increasingly decisive factors for many occupiers on the Moscow office market. While these have always been critical issues for new tenants, recent measurements of office market dynamics demonstrate a clear trend of these factors taking an even more prominent role. Nearly half of the office market transactions² recorded in Q4 of 2011 were classified as Class A office space.

Leasing activity was split fairly evenly between international and domestic companies, with international companies prevailing (51%) over domestic companies (49%). A further breakdown of transactions in Q4 reveals that 21 transactions were in the range of 1,500-4,000 sq m; 8 were between 4,000-9,000 sq m; and 3 deals were in the >25,000 sq m range. Transactions have been similarly broken down in terms of type with nearly 69% accounted for by new leases, 9% by renewals and sale by only 5%. Other 17% include sublease, renegotiations, expansion.

A strong upswing in demand was measured toward the end of 2011, with Q4 take-up reaching 490,000 sq m, pushing the annual total for take up to 1.77m sq m (compared to 1.4m sq m in 2010). The drivers for much of the leasing activity in Q4 were spread across three sectors, with the most prominent being IT companies accounting for 33% (e.g. Mail.ru). The manufacturing sector accounted for almost 20% (e.g. Schneider Electric); 'business services' companies (e.g. Strategy Partners) accounted for about 11%. Telecommunication (e.g. Tele2) and construction (e.g. ARMO) companies took much smaller shares recording less than 6% and 5.5%, respectively.

² included deals known to the Moscow Research Forum

Graph 17. Deals breakdown by business sectors

The decentralization of the Moscow office market became even more apparent in 2011, evidenced by significant take-up recorded in Zone 3. Deals in Zone 3 included office buildings such as Olympia Park, Metropolis and SkyLight, Krytaskye Hills and Dvintsev, Nagatino i-Land and Danilovsky Fort. When taken together, the trend of decentralization and the existing construction restrictions recently implemented in the city center (CBD), it appears that the financial district, Moscow City (only 6 km from the Kremlin Zone) will continue to rise as a favored destination for those occupiers who require or prefer to be more centrally located, but not in the CBD.

Market balance / Rents

The overall vacancy rate on the Moscow office market in Q4 2011 slightly decreased compared to Q3 and measured 16.3%, with vacancy declining even further to 12.7% in the CBD. Of the 2.2m sq m of available office space on the market, approximately 20% is represented by Class A quality office space.

Graph 18. Vacancy rate benchmarks, Q4 2011

Source: Jones Lang LaSalle

In the city center's Kremlin Zone, one of the most prestigious areas of the city, available Class A space only amounts to 36,000 sq m, but represents a vacancy rate (for this class in this zone) of 19.6%. While this would seem to be inordinately high for such a sought after location/Class, when put in context, the Kremlin Zone only has approximately 186,000 sq m of office space that is classified as Class A office stock.

As to be expected, more than half of the overall available office space in Moscow is located outside the more central areas, in Zone 3. More importantly, nearly 80% of overall availability is represented by Class B office space.

On a quarterly basis, office rents remained stable in Q4 2011, with prime base rents remaining at a level of USD1,000-1,200 sq m/year (excluding operational expenses and VAT). Nevertheless, prime rents increased 33% YoY. Class A base rents amounted to USD600-850 sq m/year; Class B+ base rents amounted to USD400-600 sq m/year; and Class B- base rents were USD300-400 sq m/year. In 2012, we are expecting rents to increase, albeit gradually, across all Classes (A, B+, B-).

Graph 19. Rent Dynamics

Incentives are largely the same, with a 3-6 month rent free period (typically to cover tenant fit-out works) on an standard 5-7 year lease length.

Conclusions

- The trend of decentralization will amplify with office schemes located outside the TTR becoming more popular.
- Price-sensitivity and preferences for higher quality space will continue to be pivotal issues for most companies.

- 2012 is predicted to be strong in terms of the supply pipeline – 1m sq m.
- We forecast a slower rental growth (particularly compared to that of 2011) of around 5-7% per annum.

5.5 Local Office Market Overview

In accordance with Jones Lang LaSalle's office market breakdown, the Property is located within Zone 2 (between the Garden Ring and Third Ring Road), in the North-West submarket. On this basis, we state below a list of the

Existing office buildings

Future office buildings

The full information concerning existing and future office buildings represented above is shown in Appendix 2.

5.5.1 Rental evidence and Considerations

In arriving at our opinion of rental value in respect of the property, we have had regard to a range of comparable buildings located in the area of the subject property, as follows:

Table 9. Rental evidence

#	Picture	Description
1		<u>Name:</u> Balchug Plaza <u>Address:</u> Balchug St., 7 <u>Class:</u> A <u>Year of construction:</u> 2005 <u>GBA:</u> 30,000 sq m <u>Office GLA:</u> 20,000 sq m <u>Available office area:</u> 975 sq m <u>Asking rent (sublease):</u> \$1,200 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$430 per space/month
2		<u>Name:</u> White Square <u>Address:</u> Butyrsky Val Ul. 10 <u>Class:</u> A <u>Year of construction:</u> 2009 <u>GBA:</u> 96,700 sq m <u>Office GLA:</u> 72,300 sq m <u>Available office area:</u> 0.0 sq m <u>Asking rent (sublease):</u> \$1,000 per sq m for fitted-out space (excl. VAT and OpEx)
3		<u>Name:</u> Geneva House <u>Address:</u> Petrovka Ul. 7 <u>Class:</u> A <u>Year of construction:</u> 2009 <u>GBA:</u> 16,850 sq m <u>Office GLA:</u> 8,400 sq m <u>Available office area:</u> 1,543 sq m <u>Asking rent:</u> \$1,300 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space/month
4		<u>Name:</u> Legendy Tsvetnogo <u>Address:</u> Tsvetnoy blvd, 2 <u>Class:</u> A <u>Year of construction:</u> 2010 <u>GBA:</u> 50,000 sq m <u>Office GLA:</u> 31,000 sq m <u>Available office area:</u> 6,000-7,000 sq m <u>Asking rent:</u> \$1,050-1,300 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$550 per space/month
5		<u>Name:</u> Summit <u>Address:</u> Tverskaya St., 22 <u>Class:</u> A <u>Year of construction:</u> 2010 <u>GBA:</u> 64,000 sq m <u>Office GLA:</u> 17,000 sq m <u>Available office area:</u> 2,613 sq m <u>Asking rent:</u> \$1,000-1,200 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space

#	Picture	Description
6		<p><u>Name:</u> Romanov Dvor <u>Address:</u> Romanov Per., 4 <u>Class:</u> A <u>Year of construction:</u> 1998, 2004 <u>GBA:</u> 44,000 sq m <u>Office GLA:</u> 32,000 sq m <u>Available office area:</u> 690 sq m <u>Asking rent:</u> \$1,200 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space/month</p>
7		<p><u>Name:</u> Znamenka Centre <u>Address:</u> Znamenka St. 7/3 <u>Class:</u> A <u>Year of construction:</u> 2006 <u>GBA:</u> 13,420 sq m <u>Office GLA:</u> 7,000 sq m <u>Available office area:</u> 1,900 sq m <u>Asking rent:</u> \$1,800 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$700 per space/month</p>
8		<p><u>Name:</u> Vozdvizhenka Centre <u>Address:</u> Vozdvizhenka St. 10 <u>Class:</u> A <u>Year of construction:</u> 2008 <u>GBA:</u> 66,700 sq m <u>Office GLA:</u> 27,500 sq m <u>Available office area:</u> 5,636 sq m <u>Asking rent:</u> \$950-1,400 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space/month</p>
9		<p><u>Name:</u> Lesnaya Plaza <u>Address:</u> 4th Lesnoy Per., 4 <u>Class:</u> A <u>Year of construction:</u> 2005 <u>GBA:</u> 50,800 sq m <u>Office GLA:</u> 38,700 sq m <u>Available office area:</u> 5,265 sq m <u>Asking rent:</u> \$720 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$350 per space/month</p>
10		<p><u>Name:</u> Ducat III <u>Address:</u> Gasheka St., 6 <u>Class:</u> A <u>Year of construction:</u> 2007 <u>GBA:</u> 52,000 sq m <u>Office GLA:</u> 31,700 sq m <u>Available office area:</u> 780 sq m <u>Asking rent:</u> \$1,100-1,200 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$450 per space/month</p>
11		<p><u>Name:</u> Sadovaya Plaza <u>Address:</u> Dolgorukovskaya St., 7 <u>Class:</u> A <u>Year of construction:</u> 2007 <u>GBA:</u> 19,300 sq m <u>Office GLA:</u> 12,600 sq m <u>Available office area:</u> 142 sq m <u>Asking rent:</u> \$850-900 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space/month</p>

#	Picture	Description
12		<u>Name:</u> Hermitage Plaza <u>Address:</u> Krasnoproletarskaya St., 2/4-6 <u>Class:</u> A <u>Year of construction:</u> 2006 <u>GBA:</u> 43,400 sq m <u>Office GLA:</u> 32,362 sq m <u>Parking charge:</u> \$325 per space/month
13		<u>Name:</u> White Gardens <u>Address:</u> Lesnaya St., 27 <u>Class:</u> A <u>Year of construction:</u> at present under construction; 2013 <u>GBA:</u> 94,300 sq m <u>Office GLA:</u> 60,200 sq m <u>Asking rent:</u> \$900-1,100 per sq m for shell&core space (excl. VAT and OpEx)

Source: Jones Lang LaSalle

In forming our opinion of rental value in respect of the subject property, we have had regard to current quoting rents for accommodation offered mainly for sub-lease on a fitted-out basis. According to our market research, the asking rents for such properties in the subject area vary from \$720 to \$1,800 per sq m per annum. We have adopted \$875 per sq m per annum (excluding OpEx and VAT) for the office space in the subject property.

In terms of the underground car parking spaces, the rent varies from \$325 to \$770 per lot per month (net of VAT). The average rental payment for car spaces in office buildings which are closed to the subject property is \$450 per lot per month. Thus, in our calculations we adopted rent for car places as \$450 per place per month (net of VAT).

Conclusions

Following the results of office market analysis, taking into account the location and characteristics of the subject property and based on our conversation with brokers who actively participate in lease transactions, we have made the following assumptions on rents in the subject project:

Table 10. Rental assumptions

Type of tenant	GLA (sq m)	Base rent (\$ per sq m)
Offices	7,600	875
Car parking for rent, spaces	69	5,400

The office rent in a table above is proposed for the fitted-out space.

5.6 Investment Comparables and Considerations

Below we outline information about the most recent investment transactions reported on the Moscow office and retail markets, which took place during the course of 2010-2011.

Table 11. Investment comparables

Samples of transactions

Horus Portfolio
5 office assets in Moscow

Krugozor

Address: 30 Obrucheva Street

Class of building: B+

Completed: 2006

Description: office complex consisting of 2 buildings. Modern amenities include air-conditioning, fibre optics, fire-alarm systems. The tenants are provided with 5-level Structured parking.

Tenants: VW, Nike, Citybank, IBM, Samsonite

Gross Building Area: 56,100 sq m

Office leasable area: 50,400 sq m

Stanislavsky Factory

Address: 21 Stanislavsky Street

Class of building: B+

Completed: 2008

Description: office scheme in the centre of Moscow with a rich infrastructure: a restaurant, boutique hotel, cafe, theatre.

Tenants: Raiffeisen Leasing, Redbull, Sony

Gross Building Area: 37,100 sq m

Office leasable area: 33,700 sq m

LeFort

Address: 27 Elektrozavodskaya Street

Class of building: B+

Completed: 2006

Description: Reconstructed Class B+ office complex, comprising 7 buildings. Well-developed infrastructure, including canteen, 2 cash-machines, dry-cleaning, beauty-shop etc. Modern engineering systems including central air-conditioning. Open-space lay-out. Loss factor - 10,25%. Parking ratio - 1/70 sq m.

Tenants: Alcatel-Lucent, MDM-Bank, GE

Gross Building Area: 63,620 sq m

Office leasable area: 56,800 sq m

Avion

Address: 47 Leningradsky Prospekt

Class of building: B+

Completed: 2004

Description: 5-storey office building with modern engineering systems. Canteen and other amenities are installed. Loss factor - 12%.

Tenants: Mercedes-Benz, Mail.Ru

Gross Building Area: 22,200 sq m

Office leasable area: 18,500 sq m

Gamma

Address: 5/15 Gamsonovsky Pereulok
 Class of building: B+
 Completed: 2005
 Description: Reconstructed class B business complex comprising 3 buildings
 Tenants: ManPower, CityExpress
 Gross Building Area: 11,280 sq m
 Office leasable area: 9,400 sq m

Estimated Sale Price: USD 800 mln
 Sale date: November 2010
 Seller: Horus Capital
 Buyer: Otkritie FC
 Initial Yield: circa 10.5%

BC Metropolis

Address: Leningradskoye Shosse 16, bld. 2
 Class: A
 Completed: 2008
 Description: Class A office building of 32,600 sq m, office area – 22,170 sq m. Leasable floor area 2,805 sq m. The building is a 2nd phase of a multi-use office and retail complex “Metropolis” totaling 325,000 sq m. Effective open-space floor layout. Modern technical equipment. Tenants: BBC Russia, VTB 24, Megafon, Russia Consulting.
 GBA: 32,600 sq m
 GLA: 22,170 sq m
 Sale price: n/a
 Sale date: Q3 2011
 Seller: Capital Partners
 Buyer: Heitman Property Partners IV
 Initial Yield: circa 9%

Gogolevsky, 11

Address: Gogolevsky blvd., 11
 Class: A
 Completed: 1997
 Description: 9-storey office building comprising total area of 10,897 sq m. Office area - 7,663 sq.m. The building offers the highest quality international standard of design, construction, internal fit-out and amenities: 24-hour security, video monitoring and access control, cafeteria, central lobby with reception. All modern engineering systems: fiber-optic, telecom lines, monitoring systems, smoke detectors, 4-pipe conditioning, HVAC etc. Two-level secured and heated underground parking for 44 cars and adjacent secured surface parking for 11 cars.
 GBA: 10,900 sq m
 GLA: 7,663 sq m
 Sale price: \$96,000,000
 Sale date: Q3 2011
 Seller: Fleming Family and Partners
 Buyer: Hines Global Reit
 Initial Yield: circa 9%

Capital Plaza

Address: 4 Lesnoy Lane
 Class of building: A
 Description: 14-storey office building. All modern engineering systems are installed: independent 2-pipe central air-conditioning, fiber optics telecommunication, fire alarm Security Pro etc. 3-level underground parking with parking ratio 1/90. Open floor plate. Loss factor - 10%.
 Tenants: LG, Baccardi Martini, Regus, Unilever
 Completed: 2005
 Gross Building Area: 50,736 sq m

Leasable area: 38,078 sq m
 Sale Price: USD 180 mln
 Sale date: May 2010
 Seller: Capital Group
 Buyer: VTB Capital
 Initial Yield: circa 12%

Bakhrushina House

Address: 32 bld.1 Bakhrushina Street
 Class of building: B+
 Completed: 2002
 Description: 5-storey modern office building with retail space on the 1st floor. Underground and surface parking. Located in one of the most prestigious historic parts of Moscow.
 Tenants: BBC Russia, VTB 24, Megafon, Russia Consulting
 Gross Building Area: 5,093 sq m
 Office leasable area: 3,063 sq m
 Sale Price: USD 35 mln
 Sale date: May 2010
 Seller: Akron Group
 Buyer: UFG Real Estate II
 Initial Yield: circa 11.5%

Commentary

In 2011 investment volume into real estate was record high in Russia, across the office, retail and logistic sectors with the total volume of closed deals up 73% YoY in 2011, to USD8.4 bn.

In respect of senior debt, during the last months of 2011 the cost of bank financing increased and it has become more difficult to secure. Buyers look for assets with senior debt in place. Assets without senior debt have become less attractive.

Project finance remains in short supply and because of this, we are seeing developers selling assets and using the sale proceeds to develop out their land banks.

A number of real estate investors, who up until now have been familiarizing themselves with the market, are now actively looking to acquire property. Heitman's acquisition at Metropolis is a case in point.

In addition to those transactions detailed above, there are a number of notable others. During Q2 2011, Coalco sold their 47 per cent interest in White Square to VTB for a price rumoured to equate to a return of circa 9.6%. As this was a minority shareholding, we would expect the yield level to be more generous.

In addition to White Square, we are aware of several other transactions. Firstly, a ninety per cent share of Berlin House was sold by EPH to a Russian property company. The details are confidential, but we understand the price paid (circa \$90,000,000) reflects an initial yield of 7.2%. G11, an office building at Gogolevskiy Bulvar in the city centre, has been sold by Fleming Family and Partners to Hines Global Reit at a rumoured initial yield of just under 9%.

Currently, Ducat III is in the process of being sold. This building is highly reversionary, and as such, we believe that the initial yield that will be paid will be below 7%, rising steadily in 2013 and 2014 as new leases are agreed

to over 9%. We understand that O1 Properties are closing the deal to acquire the property for about USD 360 mln.

With respect to retail market, Galeriya in St. Petersburg has been sold at the yield of sub 9% and that Metropolis in Moscow is under offer at the yield of sub 9%. These latter two deals are important, as they demonstrate investor appetite for large single lot sizes (both these retails centres are priced at in excess of one billion US Dollars).

There are now numerous investors seeking real estate investments in Moscow, both Russian and foreign. In terms of foreign capital, Morgan Stanley, PPF, China Investment Corporation (CIC), GIC real estate, Ashmore, TPG, UFG Asset Management are all active participants in the market. Local investors include Lenhart global, PSN Group, O1 Properties, TPS, FinPoint, VTB Capital and Troika.

Based on our enquiries and the information detailed in this report, we are of the opinion that a potential investor is likely to target a 9% yield for the Property in 2015.

It should be noted that this yield does not reflect purchaser's costs, which is a standard approach in the valuation of properties in Russia.

5.7 Saleability

The subject property will comprise part of a high-profile mixed-use development located in an established district of the city. In evaluating the commercial potential of the subject project, it is necessary to take into account its location in one of the most attractive business districts of the city, where the rent rates are among the highest in Moscow. The Tverskoy district is highly attractive among tenants looking for Class A offices. Closeness to the metro, as well as excellent transport accessibility will be competitive advantages for the project which will make it particularly attractive to certain number of investors.

Taking into account the above, we are of the opinion that the marketing period for the subject property is likely to be no less than 12 months..

6 Valuation Commentary

6.1 Valuation Approach

When undertaking the valuation of development sites, there are generally two approaches which can be adopted, the approach selected being generally dependent upon the specific market and characteristics of the property concerned.

The first approach that can be adopted is referred to as the 'sales comparable' approach. Where this relates to development sites, the approach involves the analysis of comparable transactions, which are generally reported on an area basis, to which adjustments can then be made to reflect differences in location, size, volume of proposed development etc. Adoption of the sales comparison approach necessitates the existence of detailed information on the various transactions available. Where such information is available, for example from a database held by a Land Registry, then this approach can be particularly useful and enables the accurate assessment of the value of properties comprising sites held for development.

Adopting the sales comparison approach for the valuation of development sites in Russia is particularly difficult as a result of the lack of transparency in the market and a general shortage of detailed comparable evidence. This current situation is likely to start to change as the property market matures and the availability and credibility of transactional evidence improves.

The second approach that can be adopted in valuing the development sites is the income approach and, in particular, the residual approach to valuation. The residual valuation approach involves the calculation of the value of the property upon completion of the development, through the capitalisation of an anticipated rental income at a chosen yield, from which all costs required to develop the property are deducted, including an allowance, where appropriate, for a profit payment to the developer. This approach is particularly suitable for those properties, which are in the course of construction.

For the purpose of the current valuation we have used the discounted cash flow method. The discounted cash flow ("DCF") methodology can be used which involves the calculation of the present value ("PV") of all future costs and income to be incurred and generated by the development of the property. This cash flow is discounted at an appropriate rate and this in turn generates the present value of the cash flow, which is the sum available for the purchase of the site at the date of valuation.

The DCF methodology implies the following steps:

- The calculation of the amount and time structure of costs required for the project development;
- The calculation of the amount and time structure of income from the project operation;
- The calculation of the amount and time structure of operating expenses required for the income receipt from the project operation;
- The calculation of the discount rate reflecting the corresponding risk level of capital investment in the valued property at different stages of development;
- The calculation of the market value by discounting all the costs and income connected to this property.

The discounting means conversion of future costs and income to the present date at an appropriate discount rate assumed by the Valuer.

The discount rate is calculated basing on the analysis of capital rates of return for the alternative investment in terms of risk level.

The income can be earned from lease or sale of the whole property in the most probable time at the market price.

Below we give a description of main inputs on which we based our valuation.

6.2 Estimation of the Market Value

6.2.1 Cost Analysis

Construction costs

Set out below is a summary of the construction costs incorporated into our valuation, with the initial budgeted costs, those incurred and those outstanding, shown. These figures have been arrived at with regard to those costs provided to us by the Client but having also taken into account our own enquiries in this regard.

Table 12. Construction costs estimation

Type of works	Total budget, '000 \$	Actual, '000 \$	Outstanding budget, '000 \$
GBA	10,500		
City share	0	0	0
Rights	411	411	0
Tenant relocation	0	0	0
Design and permissions	692	40	652
Construction costs	11,550	0	11,550
Offices fit-out costs	2,280	0	2,280
Utilities	3,965	2,232	1,733
Marketing	116	1	114
Project Management	425	149	277
Contingency	571	6	565
TOTAL (construction)	20,009	2,839	17,170
Total per sq m	<i>1,906</i>		<i>1,635</i>
<i>Entrepreneur's profit</i>	<i>5,002</i>		<i>4,389</i>
TOTAL with entrepreneur's profit	25,011		21,559

It should be noted that in estimating development costs we have made the following general assumptions:

- City share estimation.
In accordance with Decree of Moscow Town-planning and Land Commission No.46 as of 10 November 2011, 'Avtostoyanka Tverskaya Zastava' is free of any city share payments except the land rent .
- The amount of the costs for rights purchase has been based on the budgets provided to us by the Client.
- When estimating construction costs we have proceeded from the assumption that all areas, excluding offices, are shell and core.
- Cost of utilities has been estimated as 15% of the base construction costs.
- Base construction costs (shell & core) are estimated as \$1,100 per sq m excluding VAT.
- Offices fit-out costs are estimated as \$300 per sq m of lettable area.

- Design costs within have been estimated as 5 percent of the construction costs.
- Marketing costs are estimated as 1 percent of base construction costs.
- Project management costs have been estimated by us as 2 percent of the construction and fit-out costs.
- Contingencies are estimated at 3 percent of the total sum of development costs excluding city share and rights;
- Construction costs exclude VAT.

In estimating the development costs we have also made an appropriate allowance for the Entrepreneur's Profit.

The Entrepreneur's Profit is the reward of the investor for the risks that accompany the project. Considering such risks, it is normal to include an Entrepreneur's Profit in the total development costs. The Entrepreneur's Profit constitutes a part of the sale profit or additional income generated by investments in property management and operation of the asset. The Entrepreneur's Profit is estimated as a percentage of the property's value constituents, which vary in different real estate markets.

In valuations of development projects, the allowance for the Entrepreneur's Profit depends on the development status of the particular project, ie. the degree of permission documentation obtained as at the valuation date. In accordance with our estimations, about 70 percent of the Entrepreneur's Profit is related to the high-risk stages of concept development and obtaining the permissions and approval. Below is the calculation of the Entrepreneur's Profit taking into account the current project status:

Table 13. Estimation of entrepreneur's profit

Estimation of Entrepreneur's Profit		'000 \$
Full construction costs		20,009
<i>Entrepreneur's profit</i>	25%	5,002
High risks stages	70%	3,502
<i>Concept</i>	70%	2,451
<i>Permissions</i>	30%	1,050
<i>Underground works</i>		
Low risks stages		
<i>Ground works</i>	30%	1,501
Remaining construction costs	87%	17,170
<i>Concept</i>	75%	1,838
<i>Permissions</i>	100%	1,050
<i>Underground works</i>		
<i>Ground works</i>	100%	1,501
<i>Remaining entrepreneur's profit</i>	24%	4,389

Thus, the remaining entrepreneur's profit comprises 24% of construction costs, or \$4,389,000. The total outstanding development budget for the construction comprises ~ \$21,559,000.

The cost time-line is given in Appendix I to the report.

We set out below the timing assumptions that we have adopted within our valuation:

Table 14. Development Timing Assumptions

Development Timing Assumptions		
Pre-construction period	18	months
Construction period	18	months
Income Flow	12	months
Total	48	months

Land rent

The land rent during the development period is calculated as a percentage of the cadastral value of the site depending on the proposed use. Our estimates of the land rent are based on the existing Moscow Government Regulations. In accordance with Moscow Government Decree dated 25 June 2006 #273-ПП 'About perfection of the order of land rent charge'. The land rent is calculated as 1.5 percent of the site's cadastral value and comprises \$50,145 per annum.

Agents' fee

With regard to letting fees for the commercial space, we have assumed agents' fees equating to 8 percent of the rental value and legal fees of 2 percent.

6.2.2 Income Analysis

Basing on the results of our analysis of the market, location and characteristics of the subject property, we have made the assumptions regarding the rental levels for the property specified in clause 5.5.1.

The DCF model explicitly shows growth assumptions. In respect of the growth rates for rents, they are estimated after consultations with agents and represent the size of the property, the planned average rental level and commissioning date. We assumed a rental growth for the first year of 10 percent.

In respect of vacancy, given the parameters of the project and the commissioning date, in the professional opinion of our in-house office agents, the project can achieve the sustainable vacancy level of 5%.

6.2.3 Terminal Value

Forecasting terminal capital cash flow envisages three options:

- Estimating a resale value as an amount.
- Estimating a percentage change over the holding period.
- Applying a terminal cap rate to estimated net operating income one year after the holding period.

In our calculation we applied a terminal capitalisation rate to the Net Operating Income in the year following the last forecasted year. Based on the results of our market analysis we applied a capitalisation rate of 9.00 percent to calculate the terminal cash flow in 2015. The calculation of the terminal cash flow is given in the table below:

Table 15. Terminal value calculation

Terminal Value	Formula	
Potential gross income, '000 \$/year (PGI)		7,725
Payments and vacancy losses, '000 \$/year (L)	0.0%	386
Effective gross income, '000 \$/year (EGI)	PGI-L	7,339
Non-recoverable operating expenses, '000 \$/year (OpEx)		0
Net operating income, '000 \$/year (NOI)	EGI-OpEx	7,339
Cap rate (exit yield), % (Y)		9.00%
Terminal value, '000 \$	NOI/Y	81,540

6.2.4 Yield Capitalization (Discounted Cash Flow Analysis)

In order to select the discount rate (the rate of return), we have used the WACC method (Weighted Average Cost of Capital):

WACC = $Y_E \cdot (1-M) + Y_M \cdot M$, where:

Y_E – the required equity yield rate for the current level of project's risk;

Y_M – the required mortgage yield rate secured by real estate properties;

M – the proportion of the loan in the overall capital structure.

According to the information we received from several developers, the required equity yield rate (Y_E) can be within the range of $12\% < Y_E < 35\%$ depending on the project's status.

The required mortgage yield rate secured by real estate properties (Y_M) can be within the range of $9\% < Y_M < 20\%$ depending on the project.

In order to calculate the discount rate we worked out a financial scenario for each forecasted year:

Table 16. Discount rate calculation

	Jan-12	Jan-13	Jan-14	Jan-15
Y_e	25%	20%	18%	12%
Y_m	12%	12%	11%	9%
M	0%	70%	70%	70%
WACC	25.0%	14.4%	13.1%	9.9%

According to our estimations, the weighted average discount rate comprises 14.8 percent.

Having undertaken an appraisal on this basis, this produces a market value of approximately \$34,700,000.

7 Valuation

7.1 Market Value

We are of the opinion that the Market Value of the subject property, as at 31 December 2011, equates to:

\$34,700,000

(Thirty Four Million Seven Hundred Thousand US Dollars)

7.2 Realisation Costs

Our Valuation is exclusive of VAT and no allowances have been made for any expenses of realisation nor for taxation, which might arise in the event of a disposal of any property. In addition, our valuation is net of purchaser's acquisition costs.

7.3 Exchange Rates

We have indicated the Market Values of the subject properties in the attached valuation schedule in US Dollars. In arriving at our opinions of value we have adopted the exchange rate of the \$ (USD) against the Russian Rouble (RUR) of 1 USD = 32.1961 RUR.

7.4 Responsibility

This Valuation Report has been prepared for and only for AFI Development PLC for the purposes of assisting the Company to value the asset as at 31 December 2011 on the Market Value basis, for the purpose stated above in this Valuation Report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability in respect of the whole or any part of the Valuation Report for any other purpose or to any other person or entity to whom the report or valuation is shown or disclosed or into whose hands it may come, whether published with our consent or otherwise, except where expressly agreed by our prior consent in writing.

For the avoidance of doubt, such approval is required whether or not Jones Lang LaSalle are referred to by name and whether or not the contents of our valuation report are combined with other reports.

Yours faithfully

Chris Dryden, MRICS

National Director

For and on behalf of Jones Lang LaSalle

Sergey Belov, MRICS

National Director

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APPENDIX I – Valuation Calculations

Effective Gross Income		Jan-12	Jan-13	Jan-14	Jan-15	Total
Offices		0	7,315	7,315	7,315	21,945
Car parking		0	410	410	410	1,230
Gross potential income, 000'\$		0	7,725	7,725	7,725	23,175
Occupancy level, %		0	0	0%	95%	
TOTAL Effective Gross Income, 000'\$		0	0	0	7,339	7,339

Investment Costs		Jan-12	Jan-13	Jan-14	Jan-15	Total
City share	0	0	0	0	0	0
	0%	0%	0%	0%	0%	
Design and permissions	652	652	0	0	0	652
	100%	100%	0%	0%	0%	
Construction costs	11,550	0	8,663	2,888	0	11,550
	100%	0%	75%	25%	0%	
Offices fit-out costs	2,280	0	0	2,280	0	2,280
	100%	0%	0%	100%	0%	
Utilities	1,733	0	1,733	0	0	1,733
	100%	0%	100%	0%	0%	
Marketing	114	0	57	57	0	114
	100%	0%	50%	50%	0%	
Project Management	277	69	138	69	0	277
	100%	25%	50%	25%	0%	
Contingency	565	141	283	141	0	565
	100%	25%	50%	25%	0%	
Entrepreneur's profit	4,389	70%		30%	0%	
		1,536	1,536	1,317	0	4,389
Total Investment Costs, '000 \$	21,559	2,398	12,409	6,752	0	21,559

Operating Expenses		Jan-12	Jan-13	Jan-14	Jan-15	Total
Land rent, '000 \$		50	50	50	50	201
Total Operating Expenses, '000 \$		50	50	50	50	201

Market Value Calculation		Jan-12	Jan-13	Jan-14	Jan-15	Total
Effective gross income, 000'\$		0	0	0	7,339	7,339
Terminal value from commercial areas, 000'\$		0	0	0	81,540	81,540
Total in-flow		0	0	0	88,879	88,879
Investment costs, 000'\$		2,398	12,409	6,752	0	21,559
Operating expenses, 000'\$		50	50	50	50	201
Letting Agents Fees, 000'\$	8.0%	0	0	0	587	587
Legal fees on letting, 000'\$	2.0%	0	0	0	147	147
Total out-flow		2,448	12,459	6,802	784	22,494
Total in-flow, 000'\$		-2,448	-12,459	-6,802	88,095	66,385
Net total in-flow, \$		-2,448	-12,459	-6,802	88,095	66,385
Cumulative		-2,448	-14,908	-21,710	66,385	

Market Value Calculation		Jan-12	Jan-13	Jan-14	Jan-15	Total
Discount Rate		25.00%	14.40%	13.10%	9.90%	
Discount coefficient	1.0000	0.8000	0.6993	0.6183	0.5626	
Net present value, '000'\$		-1,959	-8,713	-4,206	49,563	34,685
Cumulative		-1,959	-10,672	-14,877	34,685	
Market Value, '000 \$	34,700					

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APPENDIX II – Competing Projects

Key Competing Projects - Existing Office Buildings of Class A and B+

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
White Square		Lesnaya Str., 5 and Butyrsky Val St., 10	Capital Group	96,700	72,300	2009	Class A 14-storey office building developed by Capital Group. Total area - 96,704 sq m including office area and retail area. All modern engineering systems are installed: independent 2-pipe central air-conditioning, fibre optics telecommunication, fire alarm Security Pro etc. 3-level underground parking with parking ratio 1/90. Open floor plate. A number of underground parking spaces is 802 places.
Dukat Place III		Gasheka St., 6	Hines	52,000	31,700	2007	It is a modern, purpose built, stand-alone office building with 14 above ground floors and 3 basement levels. There are 466 parking spaces in the basement and 28 parking spaces outside the building. There is a grand entry plaza in front of the entrance to the building. This property offers high quality design, construction, internal fit-out and amenities. Modern technical, fire, safety, and security systems are installed throughout. Parking ratio is 1/70.
Novinskiy Passage		Novinskiy Blvd. 31	Stolny Grad	78,000	37,000	2003	Multifunctional Class A office, retail and entertainment 11-storey building (2 underground, 9 above ground floors). Flexible floor plates comprising total area of approximately 7,000 sq m gross. All modern amenities and engineering systems meet the requirements of Class A building. Well developed infrastructure: restaurants Goodman, Steak House, Il Patio, Planeta Sushy, canteen for tenants, pharmacy, bank branch, ATMs. Ownership certifiy is received. Parking ratio is 1/50.
Romanov Dvor		Romanov Per., 4	RD Project Development, MCD Group	44,000	32,000	1998	First phase of multi-use complex, comprising 21,300 sq m of international standard offices, restaurants (retail) floor, movie theater, fitness center, 2-level underground parking. Parking ratio is 1/100.
Znamenka		Znamenka St., 7/3	MCD group	13,420	7,000	2006	Newly constructed multifunctional business center of Class A located within 100 meters from the Kremlin. Picturesque views onto historical part of Moscow. Efficient open space floor plans varying from 488 to 1,688 sq m on a floor. State-of-the-art engineering and telecommunication systems. Professional building management. Underground parking for 92 lots with parking ratio 1 lot per 100 rentable sq m. Ready in fitted-out condition - now.

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
Vozdvizhenka Centre		Vozdvizhenka St., 10	AST Group	66,700	27,500	2008	Class A Premium multifunctional complex comprising. Functional and flexible open floor plates. Exclusive boutique shopping gallery at a comfortable distance from the office part. Cafes, restaurants. Support retail in the office part of the Complex. Modern amenities and engineering systems meet the international requirements to class A office buildings: central HVAC with noise reduction capabilities, high speed Schindler elevators. Uniquely designed lobbies and all common areas, atrioms maximizing the use of natural light. Extensive use of finest natural materials in finishing. Loss factor – 15%. Sufficient 4-level underground parking, parking ratio – 1/95. Ready in shell&core.
Balchug Plaza		Balchug St., 7	Alliance ST Group/CMI Development	30,000	20,000	2005	Balchug Plaza is a stunning group of Class A buildings designed to create an impressive architectural ensemble within 750 from the Kremlin. The project meets high international standards using first-class quality construction materials. Sufficient 3-level underground parking for 196 lots. Efficient office lay-outs. All modern communications and engineering systems: passengers and freight lifts, power supply from two independent sources, central 4-pipe air-conditioning system, advanced systems for fire fighting, the integrated security management centre. Developed infrastructure: canteen for Tenants, retail premises, restaurants. Ready - now. Parking ratios is 1/100.
Legent of Tsvetnoy		Tsvetnoy Blvd., 2	Capital Group	50,000	31,000	2010	Class A premium multifunctional complex comprising. Well-developed infrastructure (restaurants, Milfey SPA, Buddha-Bar, high end apartments). Open efficient layout. Complex is state commissioned. Blocks B and C received Certificate of Ownership. Ready in shell&core now.
Geneva House		Petrovka St., 7	DUKS	16,850	8,400	2009	12-storey multifunctional office-retail complex A class (8 surface levels and 4 underground levels). Site size - 2,100 sq m. All modern amenities and engineering systems are installed: central 4-pipe air-conditioning, combined extract and input ventilation, fibre optics,5 elevators: 3 panoramic elevators and 2 elevators for both passenger and goods (KONE), BSM, security guard, video surveillance, sprinkler system, fire alarm system. 3-level underground parking for 137 lots, comprising 5,211 sq m. Open space lay-out. Well developed infrastructure – the building is surrounded by high-end retail centers, restaurants, luxury hotels and business centers. Title is in place. Ready in shell&core-now. Parking ratio is 1/61.

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
Summit		Tverskaya St., 22	Metalloinvest-Development	64,000	17,000	2010	Newly constructed multifunctional complex. The building comprises 64,000 sq m gross including 5-star hotel (Intercontinental) for 205 rooms, retail and entertainment centre, high-class office premises. Office part includes approximately 17,000 sq m (3-10 floors), retail - 9,000 sq m. The office lobby is situated on the 1st floor with a separate entrance. Modern amenities and engineering systems: advanced 4-pipe HVAC system, 9 high speed elevators, ventilated front. Electricity capacity - 100 Wa/sq m. Developed infrastructure: restaurant, lobby-bar, fitness center, SPA. Underground parking for 400 lots with parking ratio 1/100. Delivery - now.
Sadovaya Plaza		Dolgorukovskaya St., 7	ENKA	19,300	12,600	2002	14-storey Class A office and retail centre comprising the total area of 19,300 sq m, offering 2-level underground parking and surface parking. It is a building granting all conditions necessary for business organization and development.
Capital Tower		1 st Brestskaya St., 29/22	Capital Group	15,000	11,400	2004	16-storey Class A office building with 4-level underground parking comprises total area of 15,000 sq m gross. Building design meets the requirements of the latest engineering and technical advances with its distinct facade adding a dynamic element to the historical district. All modern amenities are on site: climate control system, fibre optics, security, etc. Perfect business environment.
Chaika Plaza V		Tverskaya St., 22/2 bld. 1	Capital Group, AO Kron	8,700	6,900	1999	6-storey Phase II of the Degtyarny Office Development. Rentable area of the building is approximately 8,000 sq m. Modern technical systems installed and underground parking available. Office block with separate entrance on the 1st floor is offered for lease.
Pushkinsky Dom		Strastnoy blvd. 9	Capital Group	20,000	12,500	2006	9-storey office Class A complex comprising approx. 20,000 sq m. gross. All amenities are installed. Top quality finishing materials. Efficient floor plates enable to organize both large offices with free layout and partitioned areas. Restaurant on the 1 st floor. Sufficient 3-level underground parking.

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
School of Journalist's		Malaya Dmitrovka St., 22-24	Krost	13,300	6,900	2007	Newly constructed Class A office-retail complex with prime location in the business center of Moscow. Total area is approximately 13,300 sq m, with office part comprises 6,900 sq m. Surface part is equal to 9,361 sq m. Underground part is 3,944 sq m and includes 2-level parking for 85 lots with parking ratio 1 lot per 125 sq m of rentable area. State-of-the-art engineering systems are on site including: UPS system, 1st category of power supply, central HVAC system, independent gas heating system, video supervision and access control, modern systems for fire-fighting, 4 elevators by German company TissenKrupp. All modern amenities including: bank branch, cafeteria and high-end restaurant. Common areas are decorated with high-grade materials.
Chaika Plaza VII		Novoslobodskaya St., 41	IngosStroi Complex	12,300	7,500	2002	8-storey newly constructed Grade A office center comprising a total area of approximately 12,300 sq m gross area. All modern amenities are installed. Bank facilities are available in the building. Surface and 2 levels of underground parking.
Mansion on Kiselny		Nizh. Kiselny Per., 7-8 bld. 1, 2, 3, 4	Fund of tennis development in Russia	7,300	6,100	2008	Complex of 4 new A class interconnected office mansions with total area 7,300 sq m. Rentable area – 6,100 sq m. Secured territory. All modern amenities and engineering systems are on site: input and extract ventilation system, sprinklers, 2 KONE elevators. Underground parking for 22 lots. Surface parking - 8 lots. Ready in shell&core.
Hermitage Plaza		Krasnopresnenskaya St., 2/4	Forum Properties	43,400	32,362	2006	Class A office complex comprising 3 buildings. Gross area of the complex is 43,400 sq m. Built-up area of entire complex - 8,612 sq m. Building 01 and Building 02 are linked underground by car parking and technical areas. Office rentable area of 3-storey building 01 is 2,481 sq m. High-quality construction and materials. Professional management. 2-level underground parking for 283 lots, surface parking for 20 lots. Parking ratio is 1lot per 100 sq m. Highly efficient large open floor plates.
Lesnaya Plaza		4 th Lesnoy Per., 4	Capital Group	50,800	38,700	2005	Class A 14-storey office building. Total area - 50,800 sq m including office area - 38,700 sq m. All modern engineering systems are installed: independent 2-pipe central air-conditioning, fiber optics telecommunication, fire alarm Security Pro etc. 3-level underground parking with parking ratio 1/100. Open floor plate. Current tenants: LG, Baccardi Martini, Regus.

Key Competing Projects - Future Office Buildings of Class A and B+

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
White Gardens		Lesnaya St., bld.27	AIG/Lincoln	94,300	60,200	Q1 2013	Plans for the Property include the construction of a Class A multifunctional office complex consisting of two buildings, each with a different number of floors (13-17 storeys), and underground parking facilities for 960 cars. Retail premises (stores, cafes, restaurants) will occupy the first floors of the two buildings. At the valuation date the office complex is under construction.
Hotel Pekin		Bolshaya Sadovaya St., 5	Systema-Gals	109,000	40,000	2015	Planned reconstruction of Hotel Pekin. The complex will include several 7-10-storey buildings with total area of approximately 109,000 sq m. Office part includes 40,000 sq m. Support retail - 3,000 sq m. Hotel area is 25,000 sq m. Residential part - 22,000 sq m. Sufficient underground parking for 648 lots.
Platinum		Tsvetnoy blvd. 5/1-2	Forum Properties	14,000	9,400	2012	Newly constructed administrative complex with total area 14,000 sq m. The complex consists of two buildings: 1 two-storey refurbished mansion and 1 newly constructed building. All modern amenities and engineering systems.

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APPENDIX III – Photographs

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View on the site intended for Plaza Ila development

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APPENDIX IV – General Principles Adopted in the
Preparation of Valuation and Reports

These are the general principles upon which our Valuations and Reports are normally prepared; they apply unless we have specifically mentioned otherwise in the body of the report. Where appropriate, we will be pleased to discuss variations to suit any particular circumstances, or to arrange for the execution of structural or site surveys, or any other more detailed enquiries.

These General Principles should be read in conjunction with Jones Lang LaSalle's General Terms and Conditions of Business.

1.RICS Valuation Standards:

Valuations and Reports are prepared in accordance with the Practice Statements contained in the RICS Valuation Standards (Seventh Edition) published by the Royal Institution of Chartered Surveyors, by valuers who conform to the requirements thereof.

Except where stated, Jones Lang LaSalle and Jones Lang LaSalle Hotels are External Valuers.

2.Valuation Basis:

Properties are generally valued to "Market Value" or alternatively another basis of valuation as defined in the Appraisal and Valuation Manual. Market Value is defined as "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The full definition of any other basis, which we may have adopted, is either set out in our report or in the Valuation Standards.

There are interpretative commentaries on the definitions which are set out in the Valuation Standards and which we will be pleased to supply on request.

In our valuations no allowances are made for any expenses of realisation, or for taxation, which might arise in the event of a disposal. All property is considered as if free and clear of all mortgages or similar financial encumbrances, which may be secured thereon.

Unless otherwise stated, our valuations are of each separate property. Portfolio valuations are aggregates of individual valuations rather than the portfolio having been valued as a whole. No allowance is made for the effect of the simultaneous marketing of all/or a proportion of the properties.

3.Source of Information:

We accept as being complete and correct the information provided to us, by the sources listed, as to details of tenure, tenancies, tenant's improvements, planning consents and other relevant matters, as summarised in our report.

4.Documentation:

We do not normally read leases or documents of title. We assume, unless informed to the contrary, that each property has a good and marketable title, that all documentation is satisfactorily drawn and that there are no encumbrances, restrictions, easements or other outgoing of an onerous nature, which would have a material effect on the value of the interest under consideration, nor material litigation pending. Where we have been

provided with documentation we recommend that reliance should not be placed on our interpretation without verification by your lawyers.

5.Tenants:

Although we reflect our general understanding of a tenant's status in our valuations, enquiries as to the financial standing of actual or prospective tenants are not normally made unless specifically requested. Where properties are valued with the benefit of lettings, it is therefore assumed, unless we are informed otherwise, that the tenants are capable of meeting their financial obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.

6.Measurements:

Where appropriate, all measurement is carried out in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors, except where indicated or where we specifically state that we have relied on another source.

7.Town Planning and Other Statutory Regulations:

Information on Town Planning, wherever possible, is obtained verbally from the Local Planning Authority. We do not make formal legal enquiries and, if reassurance is required, we recommend that verification be obtained from lawyers that:

- 7.1. the position is correctly stated in our report;
- 7.2. the property is not adversely affected by any other decisions made, or conditions prescribed, by public authorities;
- 7.3. there are no outstanding statutory notices.

Outside the UK however, it is often not possible to make such verbal enquiries.

Our valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory and EC regulations, including enactments relating to fire regulations, access and use by disabled persons and control and remedial measures for asbestos in the workplace.

8.Structural Surveys:

Unless expressly instructed, we do not carry out a structural survey, nor do we test the services and we therefore do not give any assurance that any property is free from defect. We seek to reflect in our valuations any readily apparent defects or items of disrepair, which we note during our inspection, or costs of repair which are brought to our attention.

9.Deleterious Materials:

We do not normally carry out investigations on site to ascertain whether any building was constructed or altered using deleterious materials or techniques (including, by way of example, high-alumina cement concrete, woodwool as permanent shuttering, calcium chloride or asbestos). Unless we are otherwise informed, our

valuations are on the basis that no such materials or techniques have been used.

10. Site Conditions:

We do not normally carry out investigations on site in order to determine the suitability of ground conditions and services for the purposes for which they are, or are intended to be, put; nor do we undertake archaeological, ecological or environmental surveys. Unless we are otherwise informed, our valuations are on the basis that these aspects are satisfactory and that, where development is contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these matters.

11. Environmental Contamination:

Unless expressly instructed, we do not carry out site surveys or environmental assessments, or investigate historical records, to establish whether any land or premises are, or have been, contaminated. Therefore, unless advised to the contrary, our valuations are carried out on the basis that properties are not affected by environmental contamination. However, should our site inspection and further reasonable enquiries during the preparation of the valuation lead us to believe that the land is likely to be contaminated we will discuss our concerns with you.

12. Insurance:

Unless expressly advised to the contrary we assume that appropriate cover is and will continue to be available on commercially acceptable terms. For example in regard to the following:

Composite Panels

We understand that a number of insurers are substantially raising premiums, or even declining to cover, buildings incorporating certain types of composite panel. Information as to the type of panel used is not normally available, and the market response to this issue is still evolving. Accordingly, our opinions of value make no allowance for the risk that insurance cover for any property may not be available, or may only be available on onerous terms, or for any adverse market reaction to the presence of such panels.

Terrorism

Our valuations have been made on the basis that the properties are insured against risks of loss or damage including damage caused by acts of Terrorism as defined by the 2000 Terrorism Act. We have assumed that the insurer, with whom cover has been placed, is reinsured by the Government backed insurer, Pool Reinsurance Company Limited.

Flood and Rising Water Table

Our valuations have been made on the assumption that the properties are insured against damage by flood and rising water table.

13. Currency:

Valuations are prepared in Sterling or, if outside the UK, the appropriate local currency. In some countries, particularly where inflation rates are unduly high, hotel values are often expressed in an international currency

(eg. US Dollars).

14. Value Added Tax:

Valuations are prepared and expressed exclusive of VAT payments, unless otherwise stated.

15. Outstanding Debts:

In the case of property where construction works are in hand, or have recently been completed, we do not normally make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favour of contractors, subcontractors or any members of the professional or design team.

16. Confidentiality and Third Party Liability:

Our Valuations and Reports are confidential to the party to whom they are addressed for the specific purpose to which they refer, and no responsibility whatsoever is accepted to any third parties. Neither the whole, nor any part, nor reference thereto, may be published in any document, statement or circular, nor in any communication with third parties, without our prior written approval of the form and context in which it will appear.

17. Valuations Prepared On Limited Information:

In the event that we are instructed to provide a valuation without the opportunity to carry out an adequate inspection and/or without the extent of information normally available for a formal valuation, we are obliged to state that the valuation is totally dependent on the adequacy and accuracy of the information supplied and/or the assumptions made. Should these prove to be incorrect or inadequate, the accuracy of the valuation may be affected.

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APPENDIX V – Extract from the RICS Valuation Standards (7th edition)

Market Value

Definition and Interpretive Commentary. Reproduced from the RICS Valuation Standards – Global and UK 7th Edition, VS

3.2

Valuations based on Market Value (MV) shall adopt the definition, and the interpretive commentary, settled by the International Valuation Standards Committee.

Definition

'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'

Interpretive Commentary, as published in International Valuation Standard 1

3.2.

The term property is used because the focus of these Standards is the valuation of property. Because these Standards encompass financial reporting, the term Asset may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.

3.2.1 'The estimated amount ...'

Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm's-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.

3.2.2 '... a property should exchange ...'

Refers to the fact that the value of a property is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.

3.2.3 '... on the date of valuation ...'

Requires that the estimated Market Value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

3.2.4 '... between a willing buyer ...'

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute 'the market'. A valuer must not make unrealistic Assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable.

3.2.5 '... a willing seller ...'

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the 'willing seller' is a hypothetical owner.

3.2.6 '... in an arm's-length transaction ...'

Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of Special Value (defined in IVSC Standard 2, paragraph 3.8). The Market Value transaction is presumed to be between unrelated parties each acting independently.

3.2.7 '... after proper marketing ...'

Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

3.2.8 '... wherein the parties had each acted knowledgeably, prudently ...'

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

3.2.9 '... and without compulsion.'

Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

3.3

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

Commentary

- a. The basis of Market Value is an internationally recognized definition. It represents the figure that would appear in a hypothetical contract of sale at the valuation date. Valuers need to ensure that in all cases the basis is set out clearly in both the instructions and the Report.
- b. Market Value ignores any existing mortgage, debenture or other charge over the property.
- c. In the conceptual framework in IVS quoted above (para 3.2.1) it is clear that any element of special value that would be paid by an actual special purchaser at the date of valuation must be disregarded in an estimate of Market Value. Special value includes synergistic value, also known as marriage value.
- d. IVS describes special value and synergistic value as follows:
 - Special Value can arise where an asset has attributes that make it more attractive to a particular buyer, or to a limited category of buyers, than to the general body of buyers in a market. These attributes can include the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any element of Special Value because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.
 - Synergistic Value can be a type of Special Value that specifically arises from the combination of two or more assets to create a new asset that has a higher value than the sum of the individual assets.
 - When Special Value is reported, it should always be clearly distinguished from Market Value.
- e. Notwithstanding this general exclusion of special value where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future, this element of 'hope value' is reflected in Market Value. Examples of where the hope of additional value being created or obtained in the future may impact on the Market Value include:
 - the prospect of development where there is no current permission for that development; and
 - the prospect of 'synergistic value' arising from merger with another property or interests within the same property at a future date.
- f. When Market Value is applied to plant & equipment, the word 'asset' may be substituted for the word 'property'. The valuer must also state, in conjunction with the definition, which of the following additional assumptions have been made:
 - that the plant & equipment has been valued as a whole in its working place; or
 - that the plant & equipment has been valued for removal from the premises at the expense of the purchaser.

Further information on plant & equipment valuation, including typical further assumptions that may be appropriate in certain circumstances, can be found in GN 5 and in IVS GN 3 – Plant & equipment.

- g. Where the property includes land which is mineral bearing, or is suitable for use for waste management purposes, it may be necessary to make assumptions to reflect either the potential for such uses or, where the land is already in such use, to reflect any potential future uses that may be relevant.

Where the property is personal property it may be necessary to interpret Market Value as it applies to different sectors of the market. Further information on this type of valuation can be found in IVSC GN 4 and 5.



Real value in a changing world

Valuation **Advisory**

AFI DEVELOPMENT PLC

Valuation of:

Plaza IV development

11 Gruzinsky Val, Moscow

December 2011

Executive Summary

Property Address

11 Gruzinsky Val, Moscow

Description

The subject property comprises a multifunctional development which will be located at Gruzinsky Val, 11, Moscow and include Class A offices, retail accommodation and underground parking for 1,210 cars. The gross buildings area of the future property will comprise approximately 108,000 m².

Completion of construction is envisaged in Q4 2015.

As at the valuation date the project is at the stage of concept development and approvals obtaining.

Location

The subject property is located in the Tverskoy district of Moscow, which is both a cultural and business district of the city, situated to the north-west of the city centre. Tverskoy forms part of Moscow's Central District and is located between one of the city's main railway stations, Belorussky Station, and Manege Square.

The Tverskoy district is a particularly important transport hub, containing the main route linking the city centre with one of Moscow's main airports, Sheremetevo International Airport. There are a number of main traffic routes running through Tverskoy, and these include Tverskaya, 1st Tverskaya-Yamskaya, Dolgorukovskaya and Novoslobodskaya. There is therefore a high volume of vehicular traffic and the district currently has a severe shortage of parking facilities and, given the housing density, this is only likely to be addressed with the provision of underground car parks. In terms of public transport, Tverskoy offers a total of 11 Metro stations.

Tenure - Land

In accordance with the Decree of the Moscow Town-planning and Land Commission No 46 as of 10 November 2011, the subject land plot with the total area of 1.33 ha is granted to 'Avtostoyanka Tverskaya Zastava' which, as we understand from the Client, is affiliated with 'Africa-Israel Investments Ltd.', for the lease for construction purposes with a preliminary approval of location.

Tenure - Building

As at the valuation date LLC "Zheldoruslugi" has the freehold interest in the buildings with the total area of 2,067m² located at the address: Gruzinsky Val 11 bld. 1, 2, 5, 7, 10, 11, 20, 22, Moscow.

Upon completion the developer will obtain 100 percent of the building areas and long-term land lease rights

Valued Interest

In our valuation, we have valued the freehold interest in the completed buildings and the site.

Development Assumptions

- Completion of development in Q4 2015
- Total development budget: \$365,349,000 (excluding VAT)
- Outstanding development budget: \$240,563,000 (excluding VAT)

Net Operating Income

\$69,743,561 per annum

Terminal Capitalisation Rates

9.5 percent

Key Attributes

We would highlight the following key attributes in respect of the subject property.

- The specifications of the property will correspond to Class A office buildings
- Location in the prime district of the city – Tverskoy, which is an established business destination with well-developed infrastructure where office rents are among the highest in the city.
- The property has easy access to major thoroughfares of the city – Leningradsky Prospect, the Garden Ring and the Third Transport Ring. Location near to Leningradsky prospect which is a direct route to Sheremetievo International Airport.
- The property has very good accessibility by public transport since its location is in close proximity to the metro.
- As at the valuation date the market has stabilised in terms of commercial rents and yields.

Principal Risks

We would draw your attention to the following main risks in respect of the subject property.

- Access to the property during rush hours is difficult due to regular congestions in Tverskaya Zastava Square and Leningradsky Prospect.
- The development is in early stage, with the concept and the development volumes which has to be approved with the city authorities.

Valuation as at 31 December 2011

\$156,400,000

(One Hundred and Fifty Six Million Four Hundred Thousand US Dollars)

Our ref RU4873
Direct line +7 (495) 737 8000
Direct fax +7 (495) 737 8011
Chris.Dryden@eu.jll.com

1March 2012

Dear Sir

Terms of Reference

Addressee: AFI Development PLC
25 Olympion Street
3035 Limassol
Cyprus

For the attention of Mr Mark Groysman
Chairman of AFI Rus and Stroyinkom-K

Property Address: 11 Gruzinsky Val, Moscow

Client: AFI Development PLC

Tenure: **Building**

As at the valuation date LLC "Zheldoruslugi" has the freehold interest in the buildings with an aggregate area of 2,067 m2 located at the address: Gruzinsky Val 11 bld. 1, 2, 5, 7, 10, 11, 20, 22, Moscow.

Upon completion the developer will obtain 100 percent of the building.

Land

In accordance with the Decree of the Moscow Town-planning and Land Commission No 46 as of 10 November 2011, the subject land plot with the total area of 1.33 ha is granted to 'Avtostoyanka Tverskaya Zastava' which, as we understand from the Client, is affiliated with 'Africa-Israel Investments Ltd.', for the lease for construction purposes with a preliminary approval of location.

Valuation Date: 31 December 2011

Purpose of Valuation: We understand that this valuation report is required in accordance with IFRS regulations for the purposes of your company accounts and specifically for the purpose of implementing Accounting Standard No.15 of the Institute of Certified Public Accountants of Israel.

Basis of Valuation:	<p>Our valuation has been prepared in accordance with the RICS Valuation Standards (7th Edition) published by the Royal Institution of Chartered Surveyors on the basis of Market Value as defined in Appendix 5 of this report.</p> <p>The report is subject to, and should be read in conjunction with, the attached General Terms and Conditions of Business and our General Principles Adopted in the Preparation of Valuations and Reports, which are attached in Appendix 4.</p> <p>No allowance has been made for any expenses of realisation, or for taxation (including VAT), which might arise in the event of a disposal, and the property has been considered free and clear of all mortgages or other charges, which may be secured thereon.</p> <p>It is worth noting that our valuation of the Property has been based on the assessments and circumstances stipulated herein. However, it should be emphasized that the price of a real transaction may differ from our estimated value due to a number of different factors, which include intentions of the parties, their negotiating skills, special (e.g. financial ones) terms of the transaction and other factors which may directly refer to the specific deal. Thus, in case of a non-cash transaction or credit sale of the Property, the sale price will be subject to increase. In our valuation, no allowances are made for the above or any other special terms or circumstances which may entail inflation or deflation of the price.</p>
Personnel and Date of Inspection:	<p>The valuation has been prepared by Amirova Linda MRICS under the direction of Chris Dryden MRICS, Director, Russia & CIS. The property was inspected in January 2010.</p> <p>We confirm that the personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards.</p>
Status:	<p>In preparing this valuation we have acted as external valuers.</p>
Sources of Information:	<p>We have carried out all the necessary enquiries with regard to rental and investment value and market value, and have investigated planning and approval issues of the subject property.</p>
Valuation:	<p>\$156,400,000 (One Hundred and Fifty Six Million Four Hundred Thousand US Dollars)</p>
Purchaser's Costs:	<p>In accordance with investment and valuation practice in Russia, no allowance has been made for purchaser's costs in our valuation.</p>

The Directors
Africa Israel Investments Ltd
4 HaHoresh Street,
Yahud, Israel

For the Attention of: The Directors of AFI Development PLC

1 March 2012

Dear Sirs

Plaza IV development

Reference is made to the appraisal report prepared by us in connection with the property known as Plaza IV development dated 1 March 2012 (the '**Report**').

In addition to the analyses, assumptions, opinions and conclusions set forth in the Report we hereby represent and confirm as follows:

1. We were contacted and requested by you, on behalf of Africa Israel Investments Ltd, to prepare the Report.
2. Our Report is given as part of the implementation of the International Accounting Standard 40 (IAS 40 - investment property) and for purposes of implementing Accounting Standard 29, which adopts the International Financial Reporting Standards (IFRS), in the financial statements of Africa Israel Investments Ltd.
3. From time to time, we provide real estate appraisals and evaluations to other companies within the Africa Israel Investments Ltd group; however, our firm is independent of this company or any company controlled by this entity.
4. We hereby represent that we do not have any personal interest in the contemplated asset and/or in its owners, and the appraisal thereof hereunder has been prepared by us in accordance with our best and professional knowledge, skills and consideration.
5. We hereby agree that our Report, together with this letter, be included in the Africa Israel Investments Ltd.'s publicly published financial statements for the period ending 31 December 2011, which will be published in March 2012.

The above mentioned in this letter shall constitute for all purposes as an integral part of our Reports.

Yours faithfully,

Chris Dryden BLE MA MRICS
Director
On behalf of Jones Lang LaSalle

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Appendices

Appendix I Calculations

Appendix II Competing Projects

Appendix III Photographs

Appendix IV General Principles Adopted in the Preparation of Valuation and Reports

Appendix V Extract from the RICS Valuation Standards (7th edition)

1 Location

1.1 Location

The subject property is located in the Tverskoy district of Moscow, which is both a cultural and business district of the city, situated to the north-west of the city centre. Tverskoy forms part of Moscow's Central District and is located between one of the city's main railway stations, Belorussky Station, and Manege Square.

The Tverskoy district is a particularly important transport hub, containing the main route linking the city centre with one of Moscow's main airports, Sheremetevo International Airport. There are a number of main traffic routes running through Tverskoy, and these include Tverskaya, 1st Tverskaya-Yamskaya, Dolgorukovskaya and Novoslobodskaya. There is therefore a high volume of vehicular traffic and the district currently has a severe shortage of parking facilities and, given the housing density, this is only likely to be addressed with the provision of underground car parks. In terms of public transport, Tverskoy offers a total of 11 Metro stations.

The location of the subject property in a city context is shown on the location map below:

In addition to being an important business district, Tverskoy provides one of Moscow's most popular entertainment, social and retailing destinations. These facilities are concentrated around a variety of squares, including Pushkin Square, Tverskaya, Triumfalnaya and Tverskaya Zastava (the latter being the exact location of the subject property).

In addition to the commercial attractions of the district, the area located immediately to the south of Tverskaya is also characterised by expensive apartments, upscale shops and boutiques and upmarket restaurants.

1.2 Micro Location and Communications

The subject property is located next to a large square known as Tverskaya Zastava, which forms the busiest traffic interchange in Moscow. The subject property's address is 11 Gruzinsky Val, Moscow.

The plan shown below provides an illustration of the location of the subject property in the context of the neighbouring streets:

In terms of adjoining uses, the square is bordered from the west by a number of buildings forming the Belorussky railway station and various pavilions comprising the Belorusskaya Metro station. Along the southern boundary there is a variety of administrative buildings, while to the north there is an overpass over the Moscovsko-Smolenskaya railway line. In addition, there are a number of temporary commercial pavilions and kiosks in the area at present. Much of the immediate area belongs to a protection zone for both historic and cultural monuments.

The area immediately surrounding Tverskaya Zastava has seen considerable commercial development recently, particularly of office buildings, concentrated between the Belorusskaya, Mayakovskaya and Dinamo metro stations and there are considerable further developments planned. There are also a number of large hotels in the area, including 'Heliopark Hotel' as well as a casino and entertainment centre known as 'Golden Palace'.

Being located next to the Belorusskaya metro station, the property has excellent public transport accessibility. The accessibility of the property by car is also good; however it is worth mentioning that during the rush hours the traffic along Tverskaya Street and Leningradsky Prospect is difficult.

The accessibility to the property for cars will improve with the completion of the reconstruction of Leningradsky Prospect. The works were started in 2006 and include the reconstruction of the existing Leningradsky car tunnel, construction of Volokolamsky tunnel with three lanes in each direction, and a length of 1,730 m, construction of a tunnel from Alabyana Street and Bolshaya Akademicheskaya Street with three lanes in each direction, over a length of 2015 m (under construction), as well as the construction of an overpass connecting Leningradsky Prospect and Volokolamskoje Highway, which is completed.

In addition, the traffic flows passing through Tverskaya Zastava will be re-arranged and improved as soon as the new transport interchange is constructed as part of the Tverskaya Zastava redevelopment. It is envisaged that these road infrastructure improvements will greatly enhance access to and egress from the subject development.

In undertaking the alteration of the road network, the following changes are planned:

- Reconstruction of the Tverskoy overpass on Leningradsky Avenue, including a widening of about 7.0m, together with the construction of two tunnels beneath Leningradsky Avenue. The first tunnel, with three lanes of traffic, will link Butyrsky Val with Lesnaya Street and then run in the direction of Gruzinsky Val. The second tunnel will be a four lane carriageway from 2nd Brestskaya Street and Gruzinsky Val towards Butyrsky Val and Leningradsky Avenue running in the direction of the city centre.
- Construction of a slip road from Leningradsky Avenue down to 1st Brestskaya, which will be a three lane carriageway in the direction of the city centre.
- Construction of an access road to Leningradsky Avenue for traffic travelling towards Moscow Region from Butyrsky Val.
- Construction of an access road to Leningradsky Avenue for traffic in the direction of Moscow Region from 2nd Brestskaya Street towards Butyrsky Val beneath the Tverskoy overpass.
- Construction of a slip road accessing a drop off area for Belorussky railway station and also providing access to the underground parking levels.
- Construction of a 4.50m wide pedestrian bridge passing across the railway lines on the even side of the road.

The entire traffic interchange as proposed is shown on the plan below:

In addition to the alteration to the road network, there will be seven pedestrian subways constructed.

2 Description

2.1 Site

In accordance with information provided to us by the Client the size of the site will comprise about 1.33 hectares (ha). The configuration of the existing buildings on the site is presented below:

Part of the site, with a total area of 2,145 m² is occupied by several old warehouses, which will be demolished. For the remainder of the site the permitted use is for the operating of the adjacent warehouse buildings.

The site's cadastral block number is 77:01:04019.

2.2 Description of Development

The proposed future multifunctional development will be located at Gruzinsky Val, 11 and comprise Class A offices, retail accommodation and underground parking for 1,210 cars..

Based on the information which we have received from the Client, the size of the future property will comprise approximately 108,000 m². Below we provide a more detailed area breakdown:

Table 1. Breakdown of the areas

	Unit of measure	Apartment Building
Gross Building Area	m ²	108,000
Underground Area	m ²	36,000
Above-ground Area:	m ²	72,000
Offices	m ²	69,000
Retail	m ²	3,000
Number of underground car parking spaces	units	1,210

The areas given in the table above are provided on a gross basis, for the purpose of the valuation we have estimated the net areas based applying a 5 percent loss factor.

On the basis of the above, we have based our valuation on the following breakdown of areas:

Table 2. Breakdown of the areas for the calculation

Parameters	Gross leasable area (m ²)
Office	65,550
Retail	2,850
Car parking	36,000
Underground car parking, spaces	1,210

In terms of timing, at present, the following construction timetable is envisaged for the development:

Table 3. Timing assumptions

Stage of Development	Timing
Design preparation, getting approvals and permissions	Q4 2011 – Q2 2013
Construction	Q2 2013 – Q4 2015

3 Legal

3.1 Tenure

We have been provided with the following documents relating to the subject property:

1. Decree of the Moscow Town-planning and Land Commission No.46 dated 10 November 2011.
2. Pre-project documentation for the construction of a multifunctional complex located at the address: Gruzinsky Val, 11.
3. Short-term land lease agreement # M-01-513108 dated 27 February 2006 for the site of the total area of 1.1004 ha.
4. Short-term land lease agreement # M-01-514531 dated 23 May 2007 for the site of the total area of 0.0187 ha.
5. State registration certificates for the following sites and buildings:

Table 4.

#	Property	Area (m ²)	Cadastral number	State registration certificate	Type of rights
Buildings					
1.	Gruzinsky val, 11, bld. 1	12.1	n/a	77 AB 637382	freehold
2.	Gruzinsky val, 11, bld. 2	40.4	n/a	77 AB 637557	freehold
3.	Gruzinsky val, 11, bld. 5	543	n/a	77 AB 637387	freehold
4.	Gruzinsky val, 11, bld. 7	87.6	n/a	77 AB 637558	freehold
5.	Gruzinsky val, 11, bld. 10	434.6	n/a	77 AB 637386	freehold
6.	Gruzinsky val, 11, bld. 11	457.9	n/a	77 AB 637383	freehold
7.	Gruzinsky val, 11, bld. 20	328	n/a	77 AB 637385	freehold
8.	Gruzinsky val, 11, bld. 22	163.6	n/a	77 AB 637384	freehold
Total		2,067			
Land sites					
1.	Gruzinsky val, 11	450	77:01:04019:105	77 АГ 328179	freehold
2.	Gruzinsky val, 11	182	77:01:04019:104	77 АГ 328174	freehold
3.	Gruzinsky val, 11	551	77:01:04019:106	77 АГ 328176	freehold
4.	Gruzinsky val, 11	128	77:01:04019:107	77 АГ 328178	freehold
5.	Gruzinsky val, 11	764	77:01:04019:108	77 АГ 328180	freehold
6.	Gruzinsky val, 11	44	77:01:04019:112	77 АГ 328175	freehold
7.	Gruzinsky val, 11	26	77:01:04019:113	77 АГ 328177	freehold
Total		2,145			

6. Information on relocation of tenants located on the adjacent site to the subject site which are subject to relocation. As provided by the Client 6,187 m² are to be relocated.
7. Agreement about the joint development of multifunctional property located at the address: Moscow, Gruzinsky Val., 11 dated 7 February 2007 executed between "Sat Development" and "Donkamill Holdings Limited".¹
8. Shareholders Agreement dated 14 May 2007 executed between AFI Development PLC and Hogan Management Limited about entering into the project.
9. Project development budget.
10. Project development schedule.

¹ "Donkamill Holdings Limited" comprises the affiliated organization of Africa Israel Investment Ltd.

11. Plan of the site borders.

Based on the documents above and information provided by the Client, we arrived at the following conclusions which we used as the basis of our valuation:

1. As at the valuation date the Client has the following rights for the site:
 - In accordance with the Decree of the Moscow Town-planning and Land Commission No 46 as of 10 November 2011, the subject land plot with the total area of 1.33 ha is granted to 'Avtostoyanka Tverskaya Zastava' which, as we understand from the Client, is affiliated with 'Africa-Israel Investments Ltd.', for the lease for construction purposes with a preliminary approval of location.
 - Based on the information provided by the Client we have considered a buyout of 5% in the amount of \$7.1 million.
2. Based on the information of the Client, the total site area under the future property will comprise 1.33 ha.
3. As of the valuation date the project is at the stage of adoption of a resolution on preliminary approval of the location of Class A office building, retail accommodation and underground car parking. Projected gross building area is 108,000 m². In our valuation we have made an assumption that the development concept which was provided to us will be definitely agreed and approved by the city authorities.

Jones Lang LaSalle has not carried out any legal expertise of the title and information provided by the Client. We have not been provided with a Report on Title in respect of this property and recommend that should such a report be prepared that we be provided with a copy and given the opportunity to reconsider our opinion of value in light of its contents.

In our valuation, we have valued freehold interest for 95% of the areas of the completed building and the site.

3.2 Town Planning

It is our understanding that the proposed use is a legal use under the Moscow City Planning Legislation.

We are not aware of any outstanding planning applications or decisions granted on the subject property that are likely to have a material impact on the value.

3.3 Environmental Matters

No indications of past or present contaminative land uses were noted during the inspection. Our inspection was only of a limited visual nature and we cannot give any assurances that previous uses on the site or in the surrounding areas have not contaminated subsoil or ground waters. In the event of contamination being discovered, further specialist advice should be obtained.

3.4 Marketing Period

Proper marketing ensures that the marketing period (exposure time) for the Property will constitute no less than 12 months. Our conclusion is supported by a number of brokers who are actively participating in transactions (sale) with comparable assets.

4 Highest and Best Use Analysis

The highest and best use (HBU) of a real estate asset is the one that is physically possible, legally permissible, financially feasible, and must result in the highest value.

For valuation purposes, a real estate property may be considered as two separate constituents, which are the land plot and its improvements (buildings, developments, utility lines, etc. constructed on it or under it); therefore, in estimating a real estate property, appraisers estimate the highest and best use of land (as if vacant) and the highest and best use of the property (as improved). Estimation of each of the HBU types requires a separate analysis. However, as one can see, both are estimated under the following four criteria:

- legality;
- physical possibility;
- financial feasibility, and
- highest profitability.

Any use of a real estate asset shall be viewed from the above four points, which are to be applied in that order. In the event that some potential use option does not meet any of the four criteria, such an option shall be disregarded and replaced with another one. The HBU shall meet all of the above four criteria.

Based on Decree of Moscow Town-planning and Land Commission No.46 as of 10 November 2011 the subject land plot has been granted to 'Avtostoyanka Tverskaya Zastava' for the construction of the office center. This means that, from a legal perspective, the asset envisages only one function. Based on that and also based on the site characteristics, we are of the opinion that the suggested development concept of the site represents its highest and best use.

5 Market Commentary

5.1 Russian Economic Overview

Expectations for the global economy, while still uncertain and looking comparatively more stable, with Europe being the center of attention. However positive movement in the US employment rate has also been observed. Overall, the current slowdown is predicted to be much milder than 2008-2009 recession. IHS Global Insight predicts global GDP growth at 2.7% in 2012, down from 3% last year. Nevertheless, uncertainty remains pronounced and risks will be on the downside of the current view as long as the Eurozone debt crisis persists. Recent credit downgrades for a number of economies, including France, only add to the problem. Moreover, the European banking sector is also feeling the strain. Interbank rates have risen to post-Lehman's highs as investors withdraw and the risk of another credit crunch looms.

Table 5: 2012 GDP Forecast from IHS Global Insight: Recent Movements

Date of forecast	France	Czech Republic	Poland	Germany	UK	China	Russia	Japan	USA
Nov 2012	0.2	1.3	2.8	0.8	0.8	8.1	3.9	2.6	1.6
January (latest)	-0.7	0.4	2.0	0.2	0.3	7.9	3.7	2.9	2.0
Change (bsp)	-90	-90	-80	-60	-50	-20	-20	30	40

The most obvious obstacle for the Russian economy is the ongoing sovereign debt crisis in Europe, which is preventing growth by depressing exports and investment flows. Although IHS Global Insight decreased Russia's GDP forecast by 20 BPS, to 3.7% in 2012, the Russian economy still looks healthier compared to some other countries and is better positioned to withstand the shock than it was in 2008.

According to Rosstat's preliminary estimate, Russian GDP expanded 4.3% YoY in 2011 vs. 4.0% in 2010. The pace of industrial production growth moderated to 2.5% in December, posting annual growth of 4.7% YoY in 2011 compared to the recovery of 2010. Recent upward performance of fixed investments and construction sectors, which is expected to continue, will add up to 2012 economy growth.

Graph 1: Real GDP growth: International comparison, YoY

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

Graph 2: Construction and fixed investments growth

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

Consumer sector continues to be the major driver of Russia's economic growth in 2011, with retail sales up 7.2% YoY in 2011. Consumer demand will grow further after the government increase wages and pensions in the public sector and the military. Moreover, recovered consumer lending and declining inflation will provide support to retail sales.

Graph 3: Real wages and retail sales growth, YoY

Graph 4: Consumer loans issued in Russia

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

In 2011 Russia made a significant step in WTO accession and tightening integration within the CIS. WTO accession is to be completed by mid-2012, which in the longer term is expected to spur structural reforms, vital for the Russian economy and FDI growth. Customs Union of Russia, Belarus and Kazakhstan eliminated their customs borders.

Moreover, on the way to the Eurasian Union, members agreed to create the Common Economic Area, aimed at freedom of movement for labour, capital, and goods, also beneficial for Russia's economic growth.

Table 6: Key macroeconomic indicators

	2010	2011	2012F
Nominal GDP (USD bn)	1,480	1,852	2,107
Real GDP growth (%)	4.0	4.3	4.1
Unemployment (% , year-end)	7.2	6.1	6.5
CPI (%)	8.8	6.1	5.8
Exchange rate (RUB/USD, year-end)	30.48	32.2	30.5
Real wage growth (% , YoY)	4.2	3.5	5.0
Retail trade turnover (USD bn)	541	650	750
Real retail sales growth (% , YoY)	4.4	7.2	5.5
Urals oil price (USD/barrel, year-end)	91.2	105.7	100.0
FDI into Russia (USD bn)	41.2	40.0(E)	50.0
International Reserves (USD bn)	479.4	498.6	590.0

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

5.2 Moscow Economy

Moscow is the largest economic, political, and scientific centre of Russia. The city's wealth of scientific, technical and industrial potential forms the basis of its economy. Many large industrial enterprises that operate within the city represent various industry sectors, including engineering, metalworking, building materials, and defence. Moscow is also one of the largest transportation centres in Russia and Eastern Europe. Banking and finance are also important sectors of Moscow's economy.

During the last several years Moscow was attracting significant international investor interest due to its wealth of opportunities, improving business environment, attractive recent economic performance, positive short-term outlook and substantial long-term growth potential. Moscow still remains the most attractive Russian city in terms of direct investment.

Population

Moscow is Europe's largest city in terms of population, and ranks alongside London, Paris and Istanbul as one of Europe's four "Mega-Cities". The City has an official population of 11.6 million, with a further 7.1 million housed in the surrounding Moscow Region, creating a greater metropolitan region of 18.7 million inhabitants. Whilst the CEE region and Russia have seen their populations decline (largely due to low birth rates and migration), Moscow stands alone as the only major city in the region whose population is growing rapidly.

Graph 5. Moscow Population Dynamics

Source: Rosstat

Key economic indicators

Being the economic centre of Russia, Moscow provides significant part of Russia's Gross Economic Product (about 22% of total GRP). Moscow economy is characterized by actively developing service sector, low debt and high budget indicators.

Graph 6. GDP growth, Moscow vs. Russia (%)

Source: Rosstat, Department of Moscow Economic Policy and Development

During recent years Moscow macroeconomic indicators were growing steadily. In 2002-2007 average annual GRP growth was 9.6%, real income growth – 10%, retail turnover growth – 5.6%. All these indicators were supplemented by strong government finance. At the end of 2008 the crisis hit the economy and led to the slowdown in city development. However, after a sharp decline of major macroeconomic indicators through Q4 2008 – Q2 2009, Moscow economy has been reviving since H2 2009.

Table 7. Moscow key economic indicators

Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2011
GRP YoY, %	8.8	7.2	12.5	10.7	8.3	7.7	-12.8	5.0	4.0 (E)
Inflation, %	10.4	11.5	10.4	9.0	10.2	12.3	9.8	9.1	6.4
Retail trade real growth YoY, %	4.1	8.3	6.2	7.1	5.1	5.3	-4.0	6.8	6.6
Retail trade turnover, RUB bn	1,179	1,370	1,586	1,818	2,040	2,366	2,502	2,882	3,322

Source: Rosstat, Department of Moscow Economic Policy and Development

In 2007 Moscow GRP grew by 8.3%. In 2008 the city economic growth rate slowed down to 7.7% followed by 12.8% decline in 2009, according to Rosstat estimate, due to the world financial crisis. However, in 2010 Russian economy recovered with Moscow GRP increased by 5% according to Department of Economic Policy and Development of Moscow. In 2011 Department of Economic Policy and Development of Moscow estimates Moscow GRP growth to slow down to 4%.

The Moscow retail turnover reached USD79 billion in 2009 that is 4% lower than in 2008 in real terms. However in 2010 Moscow retail has been reviving rapidly, showing higher than average growth rates among Russian regions. Moscow retail turnover increased to USD95 billion in 2010. According to Rosstat, retail trade real growth slightly moderated to 6.6% in 2011 from 6.8% in 2010.

Income distribution of Moscow residents is quite uneven. The wealthiest population groups are concentrated in the City centre and in the semi-peripheral Western parts of the City.

In 2009 average per capita monthly income in Moscow reached USD1,417, while in 2010 it went up to USD1,516. It moderated to USD1,400 in January-November 2011.

The unemployment rate in Moscow is the lowest among Russian regions and it amounted to 2.7% at the end of 2009 and shrank to 1.7% in 2010. In October – December 2011 unemployment rate in Moscow decreased to 1.1% vs. 6.3% in Russia.

In 2011 inflation has noticeably decreased both in Moscow and Russia, ending the year at 6.4% and 6.1% respectively, compared with 9.1% and 8.8% in 2010. Though generally Moscow consumer inflation is slightly lower, than in Russia.

Graph 7. Moscow retail turnover and income

Source: Rosstat

Foreign investments into Russia were increasing at a rapid pace. The capital inflow reached record levels (USD82.3 billion) in 2007. A large portion was coming as FDI, which reached USD75 billion in 2008 vs. USD55 billion in the previous year. Moscow took a significant share of the total FDI volume, with the investment primarily focused on retailing, followed by real estate, transport and communications, as well as the finance and banking sectors. FDI growth rates declined significantly in 2009 due to the financial crisis influence and reached only USD37 billion in Russia with very strong positions of the Moscow region. The improving economic situation encouraged more inflows in 2010, to USD41 billion. In 2011 FDI in Russia is expected to reach USD40 bn.

Due to current globally growing risks and approach of presidential elections Fitch rating agency revised its outlook for Moscow's long-term and foreign currency rating to stable in 2011. Standard & Poor's Rating Agency confirmed Moscow's long-term and foreign credit rating BBB and also retained its stable forecast.

5.3 Real Estate Investment Market

Expectations for the global economy continue to be gloomy, with Europe being the main focus of concern. The most notable exception to recent trends has been the US, where a good employment data has been published. Overall, the current slowdown is predicted to be much milder than 2008-09 recession. IHS Global Insight predicts global GDP growth at 2.7% in 2012, down from 3% last year. Nevertheless, uncertainty remains pronounced and risks will be on the downside of the current view as long as the Eurozone debt crisis exists. Recent credit downgrades for a number of economies, including France, only add to the problem. Moreover, European banking sector is also feeling the strain. Interbank rates have risen to post-Lehman's highs as investors withdraw and the risk of another credit crunch looms.

The most obvious obstacle for Russian economy is the ongoing sovereign debt crisis in Europe, which is preventing growth by depressing exports and investment flows. Although IHS Global Insight decreased Russia's GDP forecast by 20 BPS, to 3.7% in 2012, Russian economy still looks healthier compared to some other countries and is better positioned to withstand the shock than it was in 2008.

Graph 8. Real GDP growth: International comparison, YoY

According to Rosstat preliminary estimate, Russian GDP expanded 4.3% YoY in 2011 vs. 4.0% in 2010. The pace of industrial production growth moderated to 2.5% in December, posting annual growth of 4.7% YoY in 2011 compared to recovery of 2010 with 8.2% growth. Recent upward performance of fixed investments and construction sectors, which is expected to continue, will add up to 2012 economy growth.

Graph 9. Construction and fixed investments growth

Consumer sector continue to be the major driver of Russia's economic growth in 2011, with retail sales being up 7.2% YoY in 2011. Consumer demand will grow further after the government increase wages and pensions in the public sector and the military. Moreover, recovered consumer lending and inflation decline will provide support to retail sales.

Graph 10. Consumer loans issued in Russia

In 2011 Russia made a significant step in WTO accession and tightening integration within the CIS. WTO accession is to be completed by mid-2012, that in longer term spurs to structural reforms, vital for the Russian economy, and FDI growth. Customs Union of Russia, Belarus and Kazakhstan eliminated their customs borders. Moreover, on the way to the Eurasian Union, members agreed to create the Common Economic Area, aimed at freedom of labour, capital, and goods movement, beneficial for Russia's economic growth.

Investment volume into real estate was record high in Russia, with the total volume of closed deals up 73% YoY in 2011, to USD8.4 bn. Commercial real estate investments doubled in 2011 vs 2010, to USD8.3 bn. We expect slightly lower real estate investment volume this year, at USD6.5 bn. Anyway, it will be higher than pre-crisis annual volumes.

Graph 11. Investment volume dynamics, USD bn*

** Investment deals, excluding corporate acquisitions, land purchases, JVs, direct residential sales to end-users*

Last year in Russia was marked by the real closures of deals that included foreign capital, with the latter accounting for 41% of the total 2011 volume, compared with 14% in 2010. We saw increased activity of international real estate investment funds on the Russian market. For example, Morgan Stanley real estate investment fund has agreed to acquire the largest shopping mall in St. Petersburg. US-based Hines Global REIT acquired Gogolevsky BC in Moscow. Jensen Group purchased Nevsky Passage, one of the oldest shopping malls in St. Petersburg.

Graph 12. Investment by deal size

Source: Jones Lang LaSalle

At the same time, local investors accounted for 58% of the total 2011 investment volume. We expect Russian investors to take a leading role on the market in 2012, while foreign investors' activity will be determined by global economic performance and political situation in Russia. In uncertain environment investors become more risk averse and suspend investing in more volatile markets while staying in local markets.

Graph 13. Investment by investor origin

Source: Jones Lang LaSalle

Sector wise, investments were bilaterally diversified in 2011. Retail and office segments attracted the bulk of investments – 40% of 2011 total investment volume each. At the same time, several large investment deals were closed in warehouse and hotel sectors to result at 5.4% and 9.7% shares respectively. For example, investment fund VTBC-Ashmore Real Estate Partners I has acquired a warehouse complex on the 8th of March Street in Moscow. Verty Capital bought Ritz Carlton Hotel in the centre of Russian capital. Moscow city authorities have sold at auction the National Hotel to Smart Finance Group, acting in the interests of businessman Mikhail Gutseriyev.

Graph 14. Investment by sector

Source: Jones Lang LaSalle

Investors are still mostly focused on prime standing assets, nevertheless with the increased availability of financing; more investments are being directed to development projects. The share of development projects increased significantly in Q2 to 26% of all completed deals from 12% in Q1. We expect interest in development assets to remain elevated, as the availability of construction financing continues to increase and due to the limited number of standing assets available for sale.

Deal size increased in 2011 compared to 2010, with 32% of transactions' number were over USD100 mn vs 23% in 2010.

Graph 15. Investment breakdown by type

Source: Jones Lang LaSalle

Table 8. Key CRE investment indicators

	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Moscow prime yields, %				
Office	9.0	9.0	9.0	9.0
Retail	9.5	9.0	9.0	9.0
Warehouse	11.0	11.0	11.0	11.0
St. Petersburg prime yields, %				
Office	11.0	10.0	10.0	10.0
Retail	11.5	10.0	10.0	10.0
Warehouse	13.5	13.5	13.5	13.5
Equity market growth, %				
RTS Index	15.5	-8.3	-29.7	3.0
VTB Capital Real Estate Index	4.1	-6.0	-39.5	-11.2

Source: CBR, Bloomberg, RTS, Renaissance Capital, Jones Lang LaSalle

Market liquidity

Overall, due to globally growing risks and approach of presidential elections country risks have increased in toward end-2011, with Russia's five-year CDS spread increased to 278 from below 200 in end-October.

During the last 4 months cost of bank financing has increased. The average rouble corporate lending rate for short-term facilities (up to 1 year) has increased to 8.8%, and the US dollar rate – to 6.1% in November 2011.

Nevertheless, Russian banks, predominantly Sberbank, continue to provide financing and extend maturity of existing debt facilities on promising under development projects. For example, Sberbank has opened a USD 394 mn credit line to ZAO International Center of Development to build a 193,000 sq m multifunctional complex in Moscow. International banks continue to provide senior debt finance for prime existing projects. Raven Russia has refinanced its two loans, extending a debt facility with Aareal bank and closing a USD83 mn refinance deal with Unicredit Bank

for its Noginsk project. Raiffesbank opened a USD55 mn credit line to Immofinanz Group to refinance its Fifth Avenue Shopping Mall. Moscow mixed-use center Prazdnik has attracted a USD30 mn seven-year refinance loan. And we are aware of several ongoing refinancing deals with the loan size of more than USD600 mn.

Despite current uncertain market conditions several Russian developers announced return to the idea of holding IPO in 2012, that were canceled due to the crisis in 2008. For example, Snegiri Development announced plans to place up to 25 pct of its shares on London Stock Exchange this year. St. Petersburg-based construction company LEK resumed IPO plans to raise enough money necessary to repay its debt to banks, starting preparation with changing its name to 'Company L1'. O1 Properties demonstrated remarkably high investment activity on Russian real estate market in 2011, continuing adding quality real estate assets to its portfolio as part of its strategy to raise its value prior to intended IPO in 2012. Though developers will take final decision this year after assessment of market conditions as due to the unstable economic situation their plans may not be realized again.

Table 9. Senior debt terms for Moscow projects in USD

	Before crisis	Crisis	After crisis
Lending rate, %	LIBOR + (3-5 ppts)	LIBOR + (10-12 ppts)	LIBOR + (7+ ppts)
LTV, %	up to 75	up to 50	up to 65
Loan size	> USD100 mn	< USD 50 mn	> USD100 mn

5.4 Office Market Overview

Supply

Approximately 166,000 sq m of new space was added to the office market in Q4 2011, bringing the total for the Moscow office market to over 13.26m sq m, including Classes A, B+, B-. Nearly 60% of all the newly completed offices that entered the market in Q4 were Class A, a notable indication that quality of workspace continues to become a priority for many occupiers. This new addition of quality space was centered around offices entering the market at the city's core. We observed:

- Imperia Tower, in Moscow City Financial District (70,000 sq m)
- Legion II Phase II, in Zone 1²(19,400 sq m)
- Moscow Hotel (office component), in Zone 1 (9,000 sq m)

Graph 16. Take up and Completion dynamics

Altogether for 2011, new office market completions only amounted to little more than 600,000 sq m of space. This figure, when compared year-on-year, was significantly lower (34%) than in 2010.

Since the crisis office market construction has been measurably reactivated and many of the construction projects that had been previously frozen, have started to enter the market. Looking ahead, approximately 2.7m sq m are expected to be completed and delivered to the market between 2012-2014. Again, supporting the drive for higher quality office space, we note that of this 2.7m sq m, nearly half (41%) will be Class A space and 20% of this pipeline will appear in the city's core area, the Central Business District (CBD).

² Zone 1 - inside the Garden Ring; Zone 2 - between the Garden Ring and Third Transport Ring; Zone 3 - between the Third Transport Ring and MKAD

Notable office spaces expected to be delivered to the market in 2012 include:

- Mercury City, in Moscow City Financial District (87,600 sq m)
- ALCON, in Zone 3 (70,500 sq m)
- SkyLight, in Zone 3 (57,300 sq m)
- Aquamarine 3, in Zone 1 (52,400 sq m)
- Lighthouse, in Zone 1 (22,500 sq m)

Demand

Quality and location are becoming increasingly decisive factors for many occupiers on the Moscow office market. While these have always been critical issues for new tenants, recent measurements of office market dynamics demonstrate a clear trend of these factors taking an even more prominent role. Nearly half of the office market transactions³ recorded in Q4 of 2011 were classified as Class A office space.

Leasing activity was split fairly evenly between international and domestic companies, with international companies prevailing (51%) over domestic companies (49%). A further breakdown of transactions in Q4 reveals that 21 transactions were in the range of 1,500-4,000 sq m; 8 were between 4,000-9,000 sq m; and 3 deals were in the >25,000 sq m range. Transactions have been similarly broken down in terms of type with nearly 69% accounted for by new leases, 9% by renewals and sale by only 5%. Other 17% include sublease, renegotiations, expansion.

A strong upswing in demand was measured toward the end of 2011, with Q4 take-up reaching 490,000 sq m, pushing the annual total for take up to 1.77m sq m (compared to 1.4m sq m in 2010). The drivers for much of the leasing activity in Q4 were spread across three sectors, with the most prominent being IT companies accounting for 33% (e.g. Mail.ru). The manufacturing sector accounted for almost 20% (e.g. Schneider Electric); 'business services' companies (e.g. Strategy Partners) accounted for about 11%. Telecommunication (e.g. Tele2) and construction (e.g. ARMO) companies took much smaller shares recording less than 6% and 5.5%, respectively.

Graph 17. Deals breakdown by business sectors

³ included deals known to the Moscow Research Forum

The decentralization of the Moscow office market became even more apparent in 2011, evidenced by significant take-up recorded in Zone 3. Deals in Zone 3 included office buildings such as Olympia Park, Metropolis and SkyLight, Krytaskye Hills and Dvintsev, Nagatino i-Land and Danilovsky Fort. When taken together, the trend of decentralization and the existing construction restrictions recently implemented in the city center (CBD), it appears that the financial district, Moscow City (only 6 km from the Kremlin Zone) will continue to rise as a favored destination for those occupiers who require or prefer to be more centrally located, but not in the CBD.

Market balance / Rents

The overall vacancy rate on the Moscow office market in Q4 2011 slightly decreased compared to Q3 and measured 16.3%, with vacancy declining even further to 12.7% in the CBD. Of the 2.2m sq m of available office space on the market, approximately 20% is represented by Class A quality office space.

Graph 18. Vacancy rate benchmarks, Q4 2011

Source: Jones Lang LaSalle

In the city center's Kremlin Zone, one of the most prestigious areas of the city, available Class A space only amounts to 36,000 sq m, but represents a vacancy rate (for this class in this zone) of 19.6%. While this would seem to be inordinately high for such a sought after location/Class, when put in context, the Kremlin Zone only has approximately 186,000 sq m of office space that is classified as Class A office stock.

As to be expected, more than half of the overall available office space in Moscow is located outside the more central areas, in Zone 3. More importantly, nearly 80% of overall availability is represented by Class B office space.

On a quarterly basis, office rents remained stable in Q4 2011, with prime base rents remaining at a level of USD1,000-1,200 sq m/year (excluding operational expenses and VAT). Nevertheless, prime rents increased 33% YoY. Class A base rents amounted to USD600-850 sq m/year; Class B+ base rents amounted to USD400-600 sq m/year; and Class B- base rents were USD300-400 sq m/year. In 2012, we are expecting rents to increase, albeit gradually, across all Classes (A, B+, B-).

Graph 19. Rent Dynamics

Incentives are largely the same, with a 3-6 month rent free period (typically to cover tenant fit-out works) on an standard 5-7 year lease length.

Conclusions

- The trend of decentralization will amplify with office schemes located outside the TTR becoming more popular.
- Price-sensitivity and preferences for higher quality space will continue to be pivotal issues for most companies.
- 2012 is predicted to be strong in terms of the supply pipeline – 1m sq m.
- We forecast a slower rental growth (particularly compared to that of 2011) of around 5-7% per annum.

5.5 Investment Comparables and Considerations

Below we outline information about the most recent investment transactions reported on the Moscow office and retail markets, which took place during the course of 2010-2011.

Table 10. Investment comparables

Samples of transactions	
	<p>Horus Portfolio 5 office assets in Moscow</p>
	<p><u>Krugozor</u> Address: 30 Obrucheva Street Class of building: B+ Completed: 2006 Description: office complex consisting of 2 buildings. Modern amenities include air-conditioning, fibre optics, fire-alarm systems. The tenants are provided with 5-level Structured parking. Tenants: VW, Nike, Citybank, IBM, Samsonite Gross Building Area: 56,100 sq m Office leasable area: 50,400 sq m</p>
	<p><u>Stanislavsky Factory</u> Address: 21 Stanislavsky Street Class of building: B+ Completed: 2008 Description: office scheme in the centre of Moscow with a rich infrastructure: a restaurant, boutique hotel, cafe, theatre. Tenants: Raiffeisen Leasing, Redbull, Sony Gross Building Area: 37,100 sq m Office leasable area: 33,700 sq m</p>
	<p><u>LeFort</u> Address: 27 Elektrozavodskaya Street Class of building: B+ Completed: 2006 Description: Reconstructed Class B+ office complex, comprising 7 buildings. Well-developed infrastructure, including canteen, 2 cash-machines, dry-cleaning, beauty-shop etc. Modern engineering systems including central air-conditioning. Open-space lay-out. Loss factor - 10,25%. Parking ratio - 1/70 sq m. Tenants: Alcatel-Lucent, MDM-Bank, GE Gross Building Area: 63,620 sq m Office leasable area: 56,800 sq m</p>
	<p><u>Avion</u> Address: 47 Leningradsky Prospekt Class of building: B+ Completed: 2004 Description: 5-storey office building with modern engineering systems. Canteen and other amenities are installed. Loss factor - 12%. Tenants: Mercedes-Benz, Mail.Ru Gross Building Area: 22,200 sq m</p>

Office leasable area: 18,500 sq m

Gamma

Address: 5/15 Gamsonovsky Pereulok

Class of building: B+

Completed: 2005

Description: Reconstructed class B business complex comprising 3 buildings

Tenants: ManPower, CityExpress

Gross Building Area: 11,280 sq m

Office leasable area: 9,400 sq m

Estimated Sale Price: USD 800 mln

Sale date: November 2010

Seller: Horus Capital

Buyer: Otkritie FC

Initial Yield: circa 10.5%

BC Metropolis

Address: Leningradskoye Shosse 16, bld. 2

Class: A

Completed: 2008

Description: Class A office building of 32,600 sq m, office area – 22,170 sq m. Leasable floor area 2,805 sq m. The building is a 2nd phase of a multi-use office and retail complex "Metropolis" totaling 325,000 sq m. Effective open-space floor layout. Modern technical equipment. Tenants: BBC Russia, VTB 24, Megafon, Russia Consulting.

GBA: 32,600 sq m

GLA: 22,170 sq m

Sale price: n/a

Sale date: Q3 2011

Seller: Capital Partners

Buyer: Heitman Property Partners IV

Initial Yield: circa 9%

Gogolevsky, 11

Address: Gogolevsky blvd.,11

Class: A

Completed: 1997

Description: 9-storey office building comprising total area of 10,897 sq m. Office area - 7,663 sq.m. The building offers the highest quality international standard of design, construction, internal fit-out and amenities: 24-hour security, video monitoring and access control, cafeteria, central lobby with reception. All modern engineering systems: fiber-optic, telecom lines, monitoring systems, smoke detectors, 4-pipe conditioning, HVAC etc. Two-level secured and heated underground parking for 44 cars and adjacent secured surface parking for 11 cars.

GBA: 10,900 sq m

GLA: 7,663 sq m

Sale price: \$96,000,000

Sale date: Q3 2011

Seller: Fleming Family and Partners

Buyer: Hines Global Reit

Initial Yield: circa 9%

Capital Plaza

Address: 4 Lesnoy Lane

Class of building: A

Description: 14-storey office building. All modern engineering systems are installed: independent 2-pipe central air-conditioning, fiber optics telecommunication, fire alarm Security Pro etc. 3-level underground parking with parking ratio 1/90. Open floor plate.

Loss factor - 10%.
 Tenants: LG, Baccardi Martini, Regus, Unilever
 Completed: 2005
 Gross Building Area: 50,736 sq m
 Leasable area: 38,078 sq m
 Sale Price: USD 180 mln
 Sale date: May 2010
 Seller: Capital Group
 Buyer: VTB Capital
 Initial Yield: circa 12%

Bakhrushina House

Address: 32 bld.1 Bakhrushina Street
 Class of building: B+
 Completed: 2002
 Description: 5-storey modern office building with retail space on the 1st floor. Underground and surface parking. Located in one of the most prestigious historic parts of Moscow.
 Tenants: BBC Russia, VTB 24, Megafon, Russia Consulting
 Gross Building Area: 5,093 sq m
 Office leasable area: 3,063 sq m
 Sale Price: USD 35 mln
 Sale date: May 2010
 Seller: Akron Group
 Buyer: UFG Real Estate II
 Initial Yield: circa 11.5%

Commentary

In 2011 investment volume into real estate was record high in Russia, across the office, retail and logistic sectors with the total volume of closed deals up 73% YoY in 2011, to USD8.4 bn.

In respect of senior debt, during the last months of 2011 the cost of bank financing increased and it has become more difficult to secure. Buyers look for assets with senior debt in place. Assets without senior debt have become less attractive.

Project finance remains in short supply and because of this, we are seeing developers selling assets and using the sale proceeds to develop out their land banks.

A number of real estate investors, who up until now have been familiarizing themselves with the market, are now actively looking to acquire property. Heitman's acquisition at Metropolis is a case in point.

In addition to those transactions detailed above, there are a number of notable others. During Q2 2011, Coalco sold their 47 per cent interest in White Square to VTB for a price rumoured to equate to a return of circa 9.6%. As this was a minority shareholding, we would expect the yield level to be more generous.

In addition to White Square, we are aware of several other transactions. Firstly, a ninety per cent share of Berlin House was sold by EPH to a Russian property company. The details are confidential, but we understand the price paid (circa \$90,000,000) reflects an initial yield of 7.2%. G11, an office building at Gogolevskiy Bulvar in the city centre, has been sold by Fleming Family and Partners to Hines Global Reit at a rumoured initial yield of just under 9%.

Currently, Ducat III is in the process of being sold. This building is highly reversionary, and as such, we believe that the initial yield that will be paid will be below 7%, rising steadily in 2013 and 2014 as new leases are agreed to over 9%. We understand that O1 Properties are closing the deal to acquire the property for about USD 360 mln.

With respect to retail market, Galeriya in St. Petersburg has been sold at the yield of sub 9% and that Metropolis in Moscow is under offer at the yield of sub 9%. These latter two deals are important, as they demonstrate investor appetite for large single lot sizes (both these retail centres are priced at in excess of one billion US Dollars).

There are now numerous investors seeking real estate investments in Moscow, both Russian and foreign. In terms of foreign capital, Morgan Stanley, PPF, China Investment Corporation (CIC), GIC real estate, Ashmore, TPG, UFG Asset Management are all active participants in the market. Local investors include Lenhart global, PSN Group, O1 Properties, TPS, FinPoint, VTB Capital and Troika.

Based on our enquiries and the information detailed in this report, we are of the opinion that a potential investor is likely to target a 9.5% yield for the Property in 2017.

It should be noted that this yield does not reflect purchaser's costs, which is a standard approach in the valuation of properties in Russia.

5.6 Local Office Market Overview

In accordance with Jones Lang LaSalle's office market breakdown stated in the previous section of the report, the property is located in Zone 6 North-West submarket, in Tverskoy district. On this basis we show a competition map and a list of the existing and future local Class A office buildings below:

Existing office buildings

Future office buildings

The full information concerning existing and future office buildings represented on the Maps above is shown in Appendix 2.

5.6.1 Rental Value and Tenant Demand

In arriving at our opinion of rental value in respect of the property, we have had regard to a range of comparable buildings located in the area of the subject property, as follows:

Table 11. Rental comparables

#	Picture	Description
1		<u>Name:</u> Balchug Plaza <u>Address:</u> Balchug St., 7 <u>Class:</u> A <u>Year of construction:</u> 2005 <u>GBA:</u> 30,000 sq m <u>Office GLA:</u> 20,000 sq m <u>Available office area:</u> 975 sq m <u>Asking rent (sublease):</u> \$1,200 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$430 per space/month
2		<u>Name:</u> White Square <u>Address:</u> Butyrsky Val Ul. 10 <u>Class:</u> A <u>Year of construction:</u> 2009 <u>GBA:</u> 96,700 sq m <u>Office GLA:</u> 72,300 sq m <u>Available office area:</u> 0.0 sq m

#	Picture	Description
		<u>Asking rent (sublease): \$1,000 per sq m for fitted-out space (excl. VAT and OpEx)</u>
3		<u>Name:</u> Geneva House <u>Address:</u> Petrovka Ul. 7 <u>Class:</u> A <u>Year of construction:</u> 2009 <u>GBA:</u> 16,850 sq m <u>Office GLA:</u> 8,400 sq m <u>Available office area:</u> 1,543 sq m <u>Asking rent:</u> \$1,300 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space/month
4		<u>Name:</u> Legendy Tsvetnogo <u>Address:</u> Tsvetnoy blvd, 2 <u>Class:</u> A <u>Year of construction:</u> 2010 <u>GBA:</u> 50,000 sq m <u>Office GLA:</u> 31,000 sq m <u>Available office area:</u> 6,000-7,000 sq m <u>Asking rent:</u> \$1,050-1,300 per sq m for shell&core space (excl. VAT and OpEx) <u>Parking charge:</u> \$550 per space/month
5		<u>Name:</u> Summit <u>Address:</u> Tverskaya St., 22 <u>Class:</u> A <u>Year of construction:</u> 2010 <u>GBA:</u> 64,000 sq m <u>Office GLA:</u> 17,000 sq m <u>Available office area:</u> 2,613 sq m <u>Asking rent:</u> \$1,000-1,200 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space
6		<u>Name:</u> Romanov Dvor <u>Address:</u> Romanov Per., 4 <u>Class:</u> A <u>Year of construction:</u> 1998, 2004 <u>GBA:</u> 44,000 sq m <u>Office GLA:</u> 32,000 sq m <u>Available office area:</u> 690 sq m <u>Asking rent:</u> \$1,200 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$500 per space/month
7		<u>Name:</u> Znamenka Centre <u>Address:</u> Znamenka St. 7/3 <u>Class:</u> A <u>Year of construction:</u> 2006 <u>GBA:</u> 13,420 sq m <u>Office GLA:</u> 7,000 sq m <u>Available office area:</u> 1,900 sq m <u>Asking rent:</u> \$1,800 per sq m for fitted-out space (excl. VAT and OpEx) <u>Parking charge:</u> \$700 per space/month
8		<u>Name:</u> Vozdvizhenka Centre <u>Address:</u> Vozdvizhenka St. 10 <u>Class:</u> A <u>Year of construction:</u> 2008 <u>GBA:</u> 66,700 sq m <u>Office GLA:</u> 27,500 sq m

#	Picture	Description
9		<p>Available office area: 5,636 sq m Asking rent: \$950-1,400 per sq m for shell&core space (excl. VAT and OpEx) Parking charge: \$500 per space/month</p> <p>Name: Lesnaya Plaza Address: 4th Lesnoy Per., 4 Class: A Year of construction: 2005 GBA: 50,800 sq m Office GLA: 38,700 sq m Available office area: 5,265 sq m Asking rent: \$720 per sq m for shell&core space (excl. VAT and OpEx) Parking charge: \$350 per space/month</p>
10		<p>Name: Ducat III Address: Gasheka St., 6 Class: A Year of construction: 2007 GBA: 52,000 sq m Office GLA: 31,700 sq m Available office area: 780 sq m Asking rent: \$1,100-1,200 per sq m for shell&core space (excl. VAT and OpEx) Parking charge: \$450 per space/month</p>
11		<p>Name: Sadovaya Plaza Address: Dolgorukovskaya St., 7 Class: A Year of construction: 2007 GBA: 19,300 sq m Office GLA: 12,600 sq m Available office area: 142 sq m Asking rent: \$850-900 per sq m for shell&core space (excl. VAT and OpEx) Parking charge: \$500 per space/month</p>
12		<p>Name: Hermitage Plaza Address: Krasnoproletarskaya St., 2/4-6 Class: A Year of construction: 2006 GBA: 43,400 sq m Office GLA: 32,362 sq m Parking charge: \$325 per space/month</p>
13		<p>Name: White Gardens Address: Lesnaya St., 27 Class: A Year of construction: at present under construction; 2013 GBA: 94,300 sq m Office GLA: 60,200 sq m Asking rent: \$900-1,100 per sq m for shell&core space (excl. VAT and OpEx)</p>

Source: Jones Lang LaSalle

In forming our opinion of rental value in respect of the subject property, we have had regard to current quoting rents for accommodation offered mainly for sub-lease on a fitted-out basis. According to our market research, the asking rents for such properties in the subject area vary from \$720 to \$1,800 per sq m per annum. We have adopted \$875 per sq m per annum (excluding OpEx and VAT) for the office space in the subject property.

In terms of the underground car parking spaces, the rent varies from \$325 to \$770 per lot per month (net of VAT). The average rental payment for car spaces in office buildings which are closed to the subject property is \$450 per lot per month. Thus, in our calculations we adopted rent for car places as \$450 per place per month (net of VAT).

5.6.2 Conclusions

Following the results of office market analysis, taking into account the location and characteristics of the subject property and based on our conversation with brokers who actively participate in lease transactions, we have made the following assumptions on rents in Plaza IV building:

Table 12.

Type of tenant	GLA (m ²)	Base rent \$ per m ² , \$ per space
Offices	65,550	875
Retail	2,850	1,000
Car parking for rent, spaces	1,210	5,400

The office rent in a table above is proposed for the fitted-out space.

5.7 Saleability

The subject property will comprise part of a high-profile mixed-use development located in an established district of the city. In evaluating the commercial potential of the office building that is the part of the project, it is necessary to take into account its location in one of the most attractive business districts of the city, where the rent rates are among the highest in Moscow. The Tverskoy district is highly attractive among tenants looking for Class A offices. Closeness to the metro, as well as excellent transport accessibility will be competitive advantages for the project which will make it particularly attractive to certain number of investors.

Taking into account the above, we are of the opinion that the marketing period for the subject property is likely to be no less than 12 months..

6 Valuation Commentary

6.1 Valuation Approach

When undertaking the valuation of development sites, there are generally two approaches which can be adopted, the approach selected being generally dependent upon the specific market and characteristics of the property concerned.

The first approach which can be adopted is referred to as the 'sales comparable' approach. Where this relates to development sites, the approach involves the analysis of comparable transactions which are generally reported on an area basis, to which adjustments can then be made to reflect differences in location, size, volume of proposed development etc. Adoption of the sales comparison approach necessitates the existence of detailed information on the various transactions available. Where such information is available, for example from a database held by a Land Registry, then this approach can be particularly useful and enables the accurate assessment of the value of properties comprising sites held for development.

Adopting the sales comparison approach for the valuation of development sites in Russia is particularly difficult as a result of the lack of transparency in the market and a general shortage of detailed comparable evidence. This current situation is likely to start to change as the property market matures and the availability and credibility of transactional evidence improves.

The second approach which can be adopted in valuing the development sites is the income approach and, in particular, the residual approach to valuation. The residual valuation approach involves the calculation of the value of the property upon completion of the development, through the capitalisation of an anticipated rental income at a chosen yield, from which all costs required to develop the property are deducted, including an allowance, where appropriate, for a profit payment to the developer. This approach is particularly suitable for those properties which are in the course of construction.

For the purpose of the current valuation we have used the discounted cash flow method. The discounted cash flow ("DCF") methodology can be used which involves the calculation of the present value ("PV") of all future costs and income to be incurred and generated by the development of the property. This cash flow is discounted at an appropriate rate and this in turn generates the present value of the cash flow, which is the sum available for the purchase of the site at the date of valuation.

The DCF methodology implies the following steps:

- The calculation of the amount and time structure of costs required for the project development;
- The calculation of the amount and time structure of income from the project operation;
- The calculation of the amount and time structure of operating expenses required for the income receipt from the project operation;
- The calculation of the discount rate reflecting the corresponding risk level of capital investment in the valued property at different stages of development;
- The calculation of the market value by discounting all the costs and income connected to this property.

The discounting means conversion of future costs and income to the present date at an appropriate discount rate assumed by the Valuer.

The discount rate is calculated basing on the analysis of capital rates of return for the alternative investment in terms of risk level.

The income can be earned from lease or sale of the whole property in the most probable time at the market price.

Below we give a description of main inputs on which we based our valuation.

6.2 Estimation of the Market Value

6.2.1 Cost Analysis

Set out below is a summary of the construction costs incorporated into our valuation, with the initial budgeted costs, those incurred and those outstanding, shown. These figures have been arrived at with regard to those costs provided to us by the Client but having also taken into account our own enquiries in this regard.

Table 13.

Plaza IV	Budget, '000 USD	Actual, '000 USD	Outstanding, '000 USD
GBA	132,500		
City share	0	0	0
Tenant relocation	24,748	0	24,748
Rights	130,968	123,848	7,120
Design and permissions	6,923	156	6,767
Demolition	413	0	413
Construction	118,800	0	118,800
Offices fit-out costs	19,665	0	19,665
Utilities	53,305	0	53,305
Marketing	1,188	4	1,184
Project Management	3,234	464	2,769
Contingency	6,106	314	5,792
TOTAL (construction)	365,349	124,786	240,563
Total per sq m	3,383		2,227
<i>Entrepreneur's profit</i>	91,337		80,148
<i>TOTAL with entrepreneur's profit</i>	456,686		320,711

It should be noted that in estimating development costs we have made the following general assumptions:

- The actual costs in the table above are based on the Client information and do not necessarily reflect the market level of incurred costs which is appropriate to spent to arrive to the current development stage. One of the reasons for this is that those costs have been spent within the past 3 years and there have been significant changes in construction costs during that time. Therefore the actual costs such as for instance project management exceed the total amount of costs which we have estimated based on the current market level of costs both for total and outstanding budget;
- City share estimation.
In accordance with Decree of Moscow Town-planning and Land Commission No.46 as of 10 November 2011, 'Avstostoyanka Tverskaya Zastava' is free of any city share payments except the land rent .
- The amount of the costs for purchase of rights and tenant relocation has been based on the budgets provided to us by the Client.
- Cost of utilities has been based on Client's data.

- Base construction costs (shell & core) are estimated as \$1,100 per m² excluding VAT.
- Offices fit-out costs are estimated as \$300 per sq m of lettable area.
- Design costs are estimated at 5 percent of construction and fit-out costs
- Marketing costs are estimated as 1 percent of base construction costs.
- Project management costs have been estimated by us as 2 percent of the construction costs.
- Contingencies are estimated at 3 percent of the total sum of development costs excluding purchase of rights and tenant relocation;
- Construction costs exclude VAT;

In estimating the development costs we have also made an appropriate allowance for the Entrepreneur's Profit.

The Entrepreneur's Profit is the reward of the investor for the risks that accompany the project. Considering such risks, it is normal to include an Entrepreneur's Profit in the total development costs. The Entrepreneur's Profit constitutes a part of the sale profit or additional income generated by investments in property management and operation of the asset. The Entrepreneur's Profit is estimated as a percentage of the property's value constituents, which vary in different real estate markets.

In valuations of development projects, the allowance for the Entrepreneur's Profit depends on the development status of the particular project, ie. the degree of permission documentation obtained as at the valuation date. In accordance with our estimations, about 70 percent of the Entrepreneur's Profit is related to the high-risk stages of concept development and obtaining the permissions and approval. Below is the calculation of the Entrepreneur's Profit taking into account the current project status:

Table 14.

Estimation of Entrepreneur's Profit		'000 \$
Full construction costs		365,349
<i>Entrepreneur's profit</i>	25%	91,337
High risks stages	70%	63,936
<i>Concept</i>	70%	44,755
<i>Permissions</i>		
<i>Underground works</i>	30%	19,181
Low risks stages		
<i>Ground works</i>	30%	27,401
Remaining construction costs	73%	240,563
<i>Concept</i>	75%	33,566
<i>Permissions</i>		
<i>Underground works</i>	100%	19,181
<i>Ground works</i>	100%	27,401
<i>Remaining entrepreneur's profit</i>	24%	80,148

Operating Expenses

- Land tax

The land plot is held freehold and therefore subject to land tax. According to information provided by the Client, the land tax paid is \$319,246 per annum.

- Agent Fees

The Consultant assumes that the owner will use the services of the professional agents and lawyers. The letting agent's fee is assumed at the level of 8% of rental value and the legal fee is at 2% of the rental value.

6.3 Development Period

We set out below the timing assumptions of the various phases of construction that we have adopted within our valuation:

Table 15.

Development Timing Assumptions	
Pre-construction period	18 months
Construction period	30 months
Income Flow	24 months
Part Length	72 months

6.4 Income Analysis

Basing on the results of our analysis of the market, location and characteristics of the subject property, we have made the assumptions regarding the rental levels for the property specified in clause 5.6.2.

The DCF model explicitly shows growth assumptions. In respect of the growth rates for rents, they are estimated after consultations with agents and represent the size of the property, the planned average rental level and commissioning date. We assumed a rental growth for the first year of 10 percent.

In respect of vacancy, given the parameters of the project and the commissioning date, in the professional opinion of our in-house office agents, the project can achieve the sustainable vacancy level of 5%.

Operating expenses have been estimated on a basis that tenants will cover all the costs of the owner.

6.5 Terminal Value

Forecasting terminal capital cash flow envisages three options:

- Estimating a resale value as an amount.
- Estimating a percentage change over the holding period.
- Applying a terminal cap rate to estimated net operating income one year after the holding period.

In our calculation we applied a terminal capitalisation rate to the Net Operating Income in the year following the last forecasted year. Based on the results of our market analysis we applied a capitalisation rate of 9.5% percent to calculate the terminal cash flow. The calculation of the terminal cash flow is given in the table below:

Table 16.

Plaza IV - Terminal Value	Formula	2017
Potential gross income, '000 \$/year (PGI)		73,414,275
Payments and vacancy losses, '000 \$/year (L)	5.0%	3,670,714
Effective gross income, '000 \$/year (EGI)	PGI-L	69,743,561
Non-recoverable operating expenses, '000 \$/year (OpEx)		0
Net operating income, '000 \$/year (NOI)	EGI-OpEx	69,743,561
Cap rate (exit yield), % (Y)		9.50%
Terminal value, '000 \$	NOI/Y	734,142,750

6.6 Yield Capitalisation (Discounted Cash Flow Analysis)

For the purpose of the current valuation we have used the discounted cash flow method. The discounted cash flow (DCF) methodology includes the following steps:

- Calculating the discount rate for future cash flow;
- Calculating and forecasting future cash flow during the property's holding period; and,
- This cash flow is discounted at an appropriate rate and this in turn generates the present value of the cash flow.

Based on current market conditions and the characteristics of the Site, we applied a holding period of one year.

In order to select the discount rate (the rate of return), we used the WACC method (Weighted Average Cost of Capital):

$WACC = Y_E \cdot (1-M) + Y_M \cdot M$, where:

Y_E – the required equity yield rate for the current level of the project's risk

Y_M – the required mortgage yield rate secured by real estate properties

M – proportion of the loan in the overall capital structure

According to the information we received from several developers, currently the required equity yield rate (Y_E) can be within the range of $12\% < Y_E < 35\%$ depending on the project's status.

The required mortgage yield rate secured by real estate properties (Y_M) can be within the range of $9\% < Y_M < 20\%$ depending on the project.

To calculate the discount rate we determined a financial scenario for each forecasted year:

Table 17.

	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17
Y_e	25%	22%	18%	16%	14%	12%
Y_m	12%	12%	11%	11%	10%	10%
M	0%	0%	70%	70%	70%	70%
WACC	25.0%	22.0%	13.1%	12.5%	11.2%	10.3%

According to our estimates, the weighted average discount rate is 14.1%.

Having undertaken an appraisal on this basis, this produces a market value of approximately \$156,400,000.

Our calculations, applying an income approach, are given in Appendix 1 to this report.

6.6.1 Sensitivity analysis

Table 18.

Input	Change	Change of the Market value, '000 USD
Developer's margin	Increase of 10%	-5,400
	Decrease of 10%	+5,400
Construction costs	Increase of 10%	-20,300
	Decrease of 10%	+20,000
Average rents per sq. m	Increase of 10%	+35,200
	Decrease of 10%	-35,200
Discount rate	Increase of 10%	-19,535
	Decrease of 10%	+21,558

7 Valuation

7.1 Market Value

We are of the opinion that the Market Value of the subject property, as at 31 December 2011, equates to:

\$156,400,000

(One Hundred and Fifty Six Million Four Hundred Thousand US Dollars)

7.2 Realisation Costs

Our Valuation is exclusive of VAT and no allowances have been made for any expenses of realisation nor for taxation, which might arise in the event of a disposal of any property. In addition, our valuation is net of purchaser's acquisition costs.

7.3 Exchange Rates

We have indicated the Market Values of the subject properties in the attached valuation schedule in US Dollars. In arriving at our opinions of value we have adopted the exchange rate of the \$ (USD) against the Russian Rouble (RUR) of 1 USD = 32.1961 RUR.

7.4 Responsibility

This Valuation Report has been prepared for and only for AFI Development PLC for the purposes of assisting the Company to value the asset as at 31 December 2011 on the Market Value basis, for the purpose stated above in this Valuation Report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability in respect of the whole or any part of the Valuation Report for any other purpose or to any other person or entity to whom the report or valuation is shown or disclosed or into whose hands it may come, whether published with our consent or otherwise, except where expressly agreed by our prior consent in writing.

For the avoidance of doubt, such approval is required whether or not Jones Lang LaSalle are referred to by name and whether or not the contents of our valuation report are combined with other reports.

Yours faithfully

Chris Dryden, MRICS

National Director

For and on behalf of Jones Lang LaSalle

Sergey Belov, MRICS

National Director

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APPENDIX I – Valuation Calculations

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Effective Gross Income		Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Total
Offices		0	0	0	0	63,092	63,092	126,184
Retail		0	0	0	0	3,135	3,135	6,270
Car parking		0	0	0	0	7,187	7,187	14,375
Gross potential income, 000'\$		0	0	0	0	73,414	73,414	146,829
Occupancy level, %		0	0	0	0	50%	95%	
TOTAL Effective Gross Income. 000'\$		0	0	0	0	36,707	69,744	106,451

Investment Costs		Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Total
City share	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	
Tenant relocation	24,748	12,374	12,374	0	0	0	0	24,748
	100%	50%	50%	0%	0%	0%	0%	
Rights	7,120	3,560	3,560	0	0	0	0	7,120
	100%	50%	50%					
Design and permissions	6,767	3,384	3,384	0	0	0	0	6,767
	100%	50%	50%	0%	0%	0%	0%	
Demolition	413	0	413	0	0	0	0	413
	100%	0%	100%	0%	0%	0%	0%	
Construction	118,800	0	11,880	53,460	53,460	0	0	118,800
	100%	0%	10%	45%	45%	0%	0%	
Hotel fit-out	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	
Fit-out costs	19,665	0	0	0	19,665	0	0	19,665
	100%	0%	0%	0%	100%	0%	0%	
Utilities	53,305	0	5,331	23,987	23,987	0	0	53,305
	100%	0%	10%	45%	45%	0%	0%	
Marketing	1,184	0	118	533	533	0	0	1,184
	100%	0%	10%	45%	45%	0%	0%	
Project Management	2,769	138	277	1,108	1,246	0	0	2,769
	100%	5%	10%	40%	45%	0%	0%	

Investment Costs		Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Total
Contingency	5,792	579	1,738	1,738	1,738	0	0	5,792
	100%	10%	30%	30%	30%	0%	0%	
Entrepreneur's profit	80,148	70%		30%				
		28,052	28,052	12,022	12,022	0	0	80,148
Total Investment Costs, '000 \$	320,711	48,087	67,126	92,848	112,651	0	0	320,711

Operating Expenses		Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Total
Land rent, '000 \$		319	319	319	319	319	319	1,915
Total Operating Expenses, '000 \$		319	319	319	319	319	319	1,915

Market Value Calculation		Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Total
Effective gross income, 000'\$		0	0	0	0	36,707	69,744	106,451
Terminal value from commercial areas, 000'\$		0	0	0	0	0	734,143	734,143
Total in-flow		0	0	0	0	36,707	803,886	840,593
Investment costs, 000'\$		48,087	67,126	92,848	112,651	0	0	320,711
Operating expenses, 000'\$		319	319	319	319	319	319	1,915
Letting Agents Fees, 000'\$	8.0%	0	0	0	0	2,937	2,643	5,579
Legal fees on letting, 000'\$	2.0%	0	0	0	0	734	661	1,395
Total out-flow		48,406	67,445	93,167	112,970	3,990	3,623	329,601
Total in-flow, 000'\$		-48,406	-67,445	-93,167	-112,970	32,717	800,263	510,992
Net total in-flow, \$		-48,406	-67,445	-93,167	-112,970	32,717	800,263	510,992
Cumulative		-48,406	-115,851	-209,018	-321,988	-289,271	510,992	
Discount Rate		25.00%	22.00%	13.10%	12.50%	11.20%	10.25%	
Discount coefficient	1.0000	0.8000	0.6557	0.5798	0.5154	0.4635	0.4204	
Net present value, 000'\$		-38,725	-44,226	-54,017	-58,221	15,163	336,407	156,381
Cumulative		-38,725	-82,951	-136,968	-195,189	-180,026	156,381	

Market Value, '000 \$	156,400							
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APPENDIX II – Comteting Projects

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Key Competing Projects - Existing Office Buildings of Class A and B+

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
White Square		Lesnaya Str., 5 and Butyrsky Val St., 10	Capital Group	96,700	72,300	2009	Class A 14-storey office building developed by Capital Group. Total area - 96,704 sq m including office area and retail area. All modern engineering systems are installed: independent 2-pipe central air-conditioning, fibre optics telecommunication, fire alarm Security Pro etc. 3-level underground parking with parking ratio 1/90. Open floor plate. A number of underground parking spaces is 802 places.
Dukat Place III		Gasheka St., 6	Hines	52,000	31,700	2007	It is a modern, purpose built, stand-alone office building with 14 above ground floors and 3 basement levels. There are 466 parking spaces in the basement and 28 parking spaces outside the building. There is a grand entry plaza in front of the entrance to the building. This property offers high quality design, construction, internal fit-out and amenities. Modern technical, fire, safety, and security systems are installed throughout. Parking ratio is 1/70.
Novinskiy Passage		Novinskiy Blvd. 31	Stolny Grad	78,000	37,000	2003	Multifunctional Class A office, retail and entertainment 11-storey building (2 underground, 9 above ground floors). Flexible floor plates comprising total area of approximately 7,000 sq m gross. All modern amenities and engineering systems meet the requirements of Class A building. Well developed infrastructure: restaurants Goodman, Steak House, Il Patio, Planeta Sushy, canteen for tenants, pharmacy, bank branch, ATMs. Ownership certifiy is received. Parking ratio is 1/50.
Romanov Dvor		Romanov Per., 4	RD Project Development, MCD Group	44,000	32,000	1998	First phase of multi-use complex, comprising 21,300 sq m of international standard offices, restaurants (retail) floor, movie theater, fitness center, 2-level underground parking. Parking ratio is 1/100.

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
Znamenka		Znamenka St., 7/3	MCD group	13,420	7,000	2006	Newly constructed multifunctional business center of Class A located within 100 meters from the Kremlin. Picturesque views onto historical part of Moscow. Efficient open space floor plans varying from 488 to 1,688 sq m on a floor. State-of-the-art engineering and telecommunication systems. Professional building management. Underground parking for 92 lots with parking ratio 1 lot per 100 rentable sq m. Ready in fitted-out condition - now.
Vozdvizhenka Centre		Vozdvizhenka St., 10	AST Group	66,700	27,500	2008	Class A Premium multifunctional complex comprising. Functional and flexible open floor plates. Exclusive boutique shopping gallery at a comfortable distance from the office part. Cafes, restaurants. Support retail in the office part of the Complex. Modern amenities and engineering systems meet the international requirements to class A office buildings: central HVAC with noise reduction capabilities, high speed Schindler elevators. Uniquely designed lobbies and all common areas, atriums maximizing the use of natural light. Extensive use of finest natural materials in finishing. Loss factor – 15%. Sufficient 4-level underground parking, parking ratio – 1/95. Ready in shell&core.
Balchug Plaza		Balchug St., 7	Alliance ST Group/CMI Development	30,000	20,000	2005	Balchug Plaza is a stunning group of Class A buildings designed to create an impressive architectural ensemble within 750 from the Kremlin. The project meets high international standards using first-class quality construction materials. Sufficient 3-level underground parking for 196 lots. Efficient office lay-outs. All modern communications and engineering systems: passengers and freight lifts, power supply from two independent sources, central 4-pipe air-conditioning system, advanced systems for fire fighting, the integrated security management centre. Developed infrastructure: canteen for Tenants, retail premises, restaurants. Ready - now. Parking ratios is 1/100.
Legent of Tsvetnoy		Tsvetnoy Blvd., 2	Capital Group	50,000	31,000	2010	Class A premium multifunctional complex comprising. Well-developed infrastructure (restaurants, Milfey SPA, Buddha-Bar, high end apartments). Open efficient layout. Complex is state commissioned. Blocks B and C received Certificate of Ownership. Ready in shell&core now.

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
Geneva House		Petrovka St., 7	DUKS	16,850	8,400	2009	12-storey multifunctional office-retail complex A class (8 surface levels and 4 underground levels). Site size - 2,100 sq m. All modern amenities and engineering systems are installed: central 4-pipe air-conditioning, combined extract and input ventilation, fibre optics, 5 elevators: 3 panoramic elevators and 2 elevators for both passenger and goods (KONE), BSM, security guard, video surveillance, sprinkler system, fire alarm system. 3-level underground parking for 137 lots, comprising 5,211 sq m. Open space lay-out. Well developed infrastructure – the building is surrounded by high-end retail centers, restaurants, luxury hotels and business centers. Title is in place. Ready in shell&core-now. Parking ratio is 1/61.
Summit		Tverskaya St., 22	Metalloinvest-Development	64,000	17,000	2010	Newly constructed multifunctional complex. The building comprises 64,000 sq m gross including 5-star hotel (Intercontinental) for 205 rooms, retail and entertainment centre, high-class office premises. Office part includes approximately 17,000 sq m (3-10 floors), retail - 9,000 sq m. The office lobby is situated on the 1st floor with a separate entrance. Modern amenities and engineering systems: advanced 4-pipe HVAC system, 9 high speed elevators, ventilated front. Electricity capacity - 100 Wa/sq m. Developed infrastructure: restaurant, lobby-bar, fitness center, SPA. Underground parking for 400 lots with parking ratio 1/100. Delivery - now.
Sadovaya Plaza		Dolgorukovskaya St., 7	ENKA	19,300	12,600	2002	14-storey Class A office and retail centre comprising the total area of 19,300 sq m, offering 2-level underground parking and surface parking. It is a building granting all conditions necessary for business organization and development.
Capital Tower		1st Brestskaya St., 29/22	Capital Group	15,000	11,400	2004	16-storey Class A office building with 4-level underground parking comprises total area of 15,000 sq m gross. Building design meets the requirements of the latest engineering and technical advances with its distinct facade adding a dynamic element to the historical district. All modern amenities are on site: climate control system, fibre optics, security, etc. Perfect business environment.

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
Chaika Plaza V		Tverskaya St., 22/2 bld. 1	Capital Group, AO Kron	8,700	6,900	1999	6-storey Phase II of the Degtyarny Office Development. Rentable area of the building is approximately 8,000 sq m. Modern technical systems installed and underground parking available. Office block with separate entrance on the 1st floor is offered for lease.
Pushkinsky Dom		Strastnoy blvd. 9	Capital Group	20,000	12,500	2006	9-storey office Class A complex comprising approx. 20,000 sq m. gross. All amenities are installed. Top quality finishing materials. Efficient floor plates enable to organize both large offices with free layout and partitioned areas. Restaurant on the 1st floor. Sufficient 3-level underground parking.
School of Journalist's		Malaya Dmitrovka St., 22-24	Krost	13,300	6,900	2007	Newly constructed Class A office-retail complex with prime location in the business center of Moscow. Total area is approximately 13,300 sq m, with office part comprises 6,900 sq m. Surface part is equal to 9,361 sq m. Underground part is 3,944 sq m and includes 2-level parking for 85 lots with parking ratio 1 lot per 125 sq m of rentable area. State-of-the-art engineering systems are on site including: UPS system, 1st category of power supply, central HVAC system, independent gas heating system, video supervision and access control, modern systems for fire-fighting, 4 elevators by German company TissenKrupp. All modern amenities including: bank branch, cafeteria and high-end restaurant. Common areas are decorated with high-grade materials.
Chaika Plaza VII		Novoslobodskaya St., 41	IngosStroi Complex	12,300	7,500	2002	8-storey newly constructed Grade A office center comprising a total area of approximately 12,300 sq m gross area. All modern amenities are installed. Bank facilities are available in the building. Surface and 2 levels of underground parking.
Mansion on Kiselny		Nizh. Kiselny Per., 7-8 bld. 1, 2, 3, 4	Fund of tennis development in Russia	7,300	6,100	2008	Complex of 4 new A class interconnected office mansions with total area 7,300 sq m. Rentable area – 6,100 sq m. Secured territory. All modern amenities and engineering systems are on site: input and extract ventilation system, sprinklers, 2 KONE elevators. Underground parking for 22 lots. Surface parking - 8 lots. Ready in shell&core.

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
Hermitage Plaza		Krasnopresnenskaya St., 2/4	Forum Properties	43,400	32,362	2006	Class A office complex comprising 3 buildings. Gross area of the complex is 43,400 sq m. Built-up area of entire complex - 8,612 sq m. Building 01 and Building 02 are linked underground by car parking and technical areas. Office rentable area of 3-storey building 01 is 2,481 sq m. High-quality construction and materials. Professional management. 2-level underground parking for 283 lots, surface parking for 20 lots. Parking ratio is 1lot per 100 sq m. Highly efficient large open floor plates.
Lesnaya Plaza		4 th Lesnoy Per., 4	Capital Group	50,800	38,700	2005	Class A 14-storey office building. Total area - 50,800 sq m including office area - 38,700 sq m. All modern engineering systems are installed: independent 2-pipe central air-conditioning, fiber optics telecommunication, fire alarm Security Pro etc. 3-level underground parking with parking ratio 1/100. Open floor plate. Current tenants: LG, Baccardi Martini, Regus.

Key Competing Projects - Future Office Buildings of Class A and B+

Business Centre	Picture	Location	Developer	GBA, sq m	Office area, sq m	Year of Construction	Comments
White Gardens		Lesnaya St., bld.27	AIG/Lincoln	94,300	60,200	Q1 2013	Plans for the Property include the construction of a Class A multifunctional office complex consisting of two buildings, each with a different number of floors (13-17 storeys), and underground parking facilities for 960 cars. Retail premises (stores, cafes, restaurants) will occupy the first floors of the two buildings. At the valuation date the office complex is under construction.
Hotel Pekin		Bolshaya Sadovaya St., 5	Systema-Gals	109,000	40,000	2015	Planned reconstruction of Hotel Pekin. The complex will include several 7-10-storey buildings with total area of approximately 109,000 sq m. Office part includes 40,000 sq m. Support retail - 3,000 sq m. Hotel area is 25,000 sq m. Residential part - 22,000 sq m. Sufficient underground parking for 648 lots.
Platinum		Tsvetnoy blvd. 5/1-2	Forum Properties	14,000	9,400	2012	Newly constructed administrative complex with total area 14,000 sq m. The complex consists of two buildings: 1 two-storey refurbished mansion and 1 newly constructed building. All modern amenities and engineering systems.

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APPENDIX III – Photographs

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Satellite Map

Existing buildings on the subject site

Picture 1

Picture 2

Picture 3

Picture 4

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APPENDIX IV – General Principles Adopted in the
Preparation of Valuation and Reports

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These are the general principles upon which our Valuations and Reports are normally prepared; they apply unless we have specifically mentioned otherwise in the body of the report. Where appropriate, we will be pleased to discuss variations to suit any particular circumstances, or to arrange for the execution of structural or site surveys, or any other more detailed enquiries.

These General Principles should be read in conjunction with Jones Lang LaSalle's General Terms and Conditions of Business.

1. RICS Valuation Standards:

Valuations and Reports are prepared in accordance with the Practice Statements contained in the RICS Valuation Standards (Seventh Edition) published by the Royal Institution of Chartered Surveyors, by valuers who conform to the requirements thereof.

Except where stated, Jones Lang LaSalle and Jones Lang LaSalle Hotels are External Valuers.

2. Valuation Basis:

Properties are generally valued to "Market Value" or alternatively another basis of valuation as defined in the Appraisal and Valuation Manual. Market Value is defined as "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The full definition of any other basis, which we may have adopted, is either set out in our report or in the Valuation Standards.

There are interpretative commentaries on the definitions which are set out in the Valuation Standards and which we will be pleased to supply on request.

In our valuations no allowances are made for any expenses of realisation, or for taxation, which might arise in the event of a disposal. All property is considered as if free and clear of all mortgages or similar financial encumbrances, which may be secured thereon.

Unless otherwise stated, our valuations are of each separate property. Portfolio valuations are aggregates of individual valuations rather than the portfolio having been valued as a whole. No allowance is made for the effect of the simultaneous marketing of all/or a proportion of the properties.

3. Source of Information:

We accept as being complete and correct the information provided to us, by the sources listed, as to details of tenure, tenancies, tenant's improvements, planning consents and other relevant matters, as summarised in our report.

4. Documentation:

We do not normally read leases or documents of title. We assume, unless informed to the contrary, that each property has a good and marketable title, that all documentation is satisfactorily drawn and that there are no encumbrances, restrictions, easements or other outgoings of an onerous nature, which would have a material effect on the value of

the interest under consideration, nor material litigation pending. Where we have been provided with documentation we recommend that reliance should not be placed on our interpretation without verification by your lawyers.

5.Tenants:

Although we reflect our general understanding of a tenant's status in our valuations, enquiries as to the financial standing of actual or prospective tenants are not normally made unless specifically requested. Where properties are valued with the benefit of lettings, it is therefore assumed, unless we are informed otherwise, that the tenants are capable of meeting their financial obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.

6.Measurements:

Where appropriate, all measurement is carried out in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors, except where indicated or where we specifically state that we have relied on another source.

7.Town Planning and Other Statutory Regulations:

Information on Town Planning, wherever possible, is obtained verbally from the Local Planning Authority. We do not make formal legal enquiries and, if reassurance is required, we recommend that verification be obtained from lawyers that:

- 7.1. the position is correctly stated in our report;
- 7.2. the property is not adversely affected by any other decisions made, or conditions prescribed, by public authorities;
- 7.3. there are no outstanding statutory notices.

Outside the UK however, it is often not possible to make such verbal enquiries.

Our valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory and EC regulations, including enactments relating to fire regulations, access and use by disabled persons and control and remedial measures for asbestos in the workplace.

8.Structural Surveys:

Unless expressly instructed, we do not carry out a structural survey, nor do we test the services and we therefore do not give any assurance that any property is free from defect. We seek to reflect in our valuations any readily apparent defects or items of disrepair, which we note during our inspection, or costs of repair which are brought to our attention.

9.Deleterious Materials:

We do not normally carry out investigations on site to ascertain whether any building was constructed or altered using deleterious materials or techniques (including, by way of example, high-alumina cement concrete, woodwool as

permanent shuttering, calcium chloride or asbestos). Unless we are otherwise informed, our valuations are on the basis that no such materials or techniques have been used.

10. Site Conditions:

We do not normally carry out investigations on site in order to determine the suitability of ground conditions and services for the purposes for which they are, or are intended to be, put; nor do we undertake archaeological, ecological or environmental surveys. Unless we are otherwise informed, our valuations are on the basis that these aspects are satisfactory and that, where development is contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these matters.

11. Environmental Contamination:

Unless expressly instructed, we do not carry out site surveys or environmental assessments, or investigate historical records, to establish whether any land or premises are, or have been, contaminated. Therefore, unless advised to the contrary, our valuations are carried out on the basis that properties are not affected by environmental contamination. However, should our site inspection and further reasonable enquiries during the preparation of the valuation lead us to believe that the land is likely to be contaminated we will discuss our concerns with you.

12. Insurance:

Unless expressly advised to the contrary we assume that appropriate cover is and will continue to be available on commercially acceptable terms. For example in regard to the following:

Composite Panels

We understand that a number of insurers are substantially raising premiums, or even declining to cover, buildings incorporating certain types of composite panel. Information as to the type of panel used is not normally available, and the market response to this issue is still evolving. Accordingly, our opinions of value make no allowance for the risk that insurance cover for any property may not be available, or may only be available on onerous terms, or for any adverse market reaction to the presence of such panels.

Flood and Rising Water Table

Our valuations have been made on the assumption that the properties are insured against damage by flood and rising water table.

13. Currency:

Valuations are prepared in Sterling or, if outside the UK, the appropriate local currency. In some countries, particularly where inflation rates are unduly high, hotel values are often expressed in an international currency (eg. US Dollars).

14. Value Added Tax:

Valuations are prepared and expressed exclusive of VAT payments, unless otherwise stated.

15. Outstanding Debts:

In the case of property where construction works are in hand, or have recently been completed, we do not normally make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favour of contractors, subcontractors or any members of the professional or design team.

16. Confidentiality and Third Party Liability:

Our Valuations and Reports are confidential to the party to whom they are addressed for the specific purpose to which they refer, and no responsibility whatsoever is accepted to any third parties. Neither the whole, nor any part, nor reference thereto, may be published in any document, statement or circular, nor in any communication with third parties, without our prior written approval of the form and context in which it will appear.

17. Valuations Prepared On Limited Information:

In the event that we are instructed to provide a valuation without the opportunity to carry out an adequate inspection and/or without the extent of information normally available for a formal valuation, we are obliged to state that the valuation is totally dependent on the adequacy and accuracy of the information supplied and/or the assumptions made. Should these prove to be incorrect or inadequate, the accuracy of the valuation may be affected.

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APPENDIX V – Extract from the RICS Valuation Standards (7th edition)

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Market Value

Definition and Interpretive Commentary. Reproduced from the RICS Valuation Standards – Global and UK 7th Edition, VS

3.2

Valuations based on Market Value (MV) shall adopt the definition, and the interpretive commentary, settled by the International Valuation Standards Committee.

Definition

'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'

Interpretive Commentary, as published in International Valuation Standard 1

3.2.

The term property is used because the focus of these Standards is the valuation of property. Because these Standards encompass financial reporting, the term Asset may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.

3.2.1 'The estimated amount ...'

Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm's-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.

3.2.2 '... a property should exchange ...'

Refers to the fact that the value of a property is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.

3.2.3 '... on the date of valuation ...'

Requires that the estimated Market Value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

3.2.4 '... between a willing buyer ...'

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute 'the market'. A valuer must not make unrealistic Assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable.

3.2.5 '... a willing seller ...'

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the 'willing seller' is a hypothetical owner.

3.2.6 '... in an arm's-length transaction ...'

Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of Special Value (defined in IVSC Standard 2, paragraph 3.8). The Market Value transaction is presumed to be between unrelated parties each acting independently.

3.2.7 '... after proper marketing ...'

Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

3.2.8 '... wherein the parties had each acted knowledgeably, prudently ...'

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

3.2.9 '... and without compulsion.'

Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

3.3

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

Commentary

- a. The basis of Market Value is an internationally recognized definition. It represents the figure that would appear in a hypothetical contract of sale at the valuation date. Valuers need to ensure that in all cases the basis is set out clearly in both the instructions and the Report.
- b. Market Value ignores any existing mortgage, debenture or other charge over the property.
- c. In the conceptual framework in IVS quoted above (para 3.2.1) it is clear that any element of special value that would be paid by an actual special purchaser at the date of valuation must be disregarded in an estimate of Market Value. Special value includes synergistic value, also known as marriage value.
- d. IVS describes special value and synergistic value as follows:
 - Special Value can arise where an asset has attributes that make it more attractive to a particular buyer, or to a limited category of buyers, than to the general body of buyers in a market. These attributes can include the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any element of Special Value because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.
 - Synergistic Value can be a type of Special Value that specifically arises from the combination of two or more assets to create a new asset that has a higher value than the sum of the individual assets.
 - When Special Value is reported, it should always be clearly distinguished from Market Value.
- e. Notwithstanding this general exclusion of special value where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future, this element of 'hope value' is reflected in Market Value. Examples of where the hope of additional value being created or obtained in the future may impact on the Market Value include:
 - the prospect of development where there is no current permission for that development; and
 - the prospect of 'synergistic value' arising from merger with another property or interests within the same property at a future date.
- f. When Market Value is applied to plant & equipment, the word 'asset' may be substituted for the word 'property'. The valuer must also state, in conjunction with the definition, which of the following additional assumptions have been made:
 - that the plant & equipment has been valued as a whole in its working place; or
 - that the plant & equipment has been valued for removal from the premises at the expense of the purchaser.

Further information on plant & equipment valuation, including typical further assumptions that may be appropriate in certain circumstances, can be found in GN 5 and in IVS GN 3 – Plant & equipment.

- g. Where the property includes land which is mineral bearing, or is suitable for use for waste management purposes, it may be necessary to make assumptions to reflect either the potential for such uses or, where the land is already in such use, to reflect any potential future uses that may be relevant.

Where the property is personal property it may be necessary to interpret Market Value as it applies to different sectors of the market. Further information on this type of valuation can be found in IVSC GN 4 and 5.



Real value in a changing world

Valuation *Advisory*

AFI DEVELOPMENT PLC

Valuation of

AFI Mall (Moscow City Central Core)
Sites 6, 7, 8b, Moscow City, Moscow

December 2011



Executive Summary

Property Address

The subject property is located at Sites 6, 7, 8b MIBC 'Moscow City'.

Description

The subject property comprises super-regional retail complex with a limited office accommodation and underground parking. The gross building area (GBA) of the shopping centre part is 165,924.8m². It consists of six retail levels.

The above ground part of the Central Core of MIBC 'Moscow City' forms part of a multi-functional complex situated on plots 6, 7, 8a and 8b of 'Moscow City', which is built above the existing underground section. The project presumes underground parking for 2,700 parking spaces (arranged in three underground levels), being under construction as at the date of valuation. We understand from the Client that there are ongoing negotiations regarding the sale of 665 parking spaces in the underground parking after it is completed. Therefore in accordance with the instruction from the Client for the purpose of this valuation we have excluded the above spaces from our consideration and specially assumed that the shopping centre will have 2,035 car parking spaces only.

The total area of the site under the property is 4.3742 hectares (ha), which is made up of a total of three land plots referred to as No. 6, 7 and 8b.

Location

The subject property is located in the Presnensky District of the Central Administrative District, on Krasnopresnenskaya Embankment, within the Moscow International Business Centre (MIBC) 'Moscow City'. At present, MIBC 'Moscow City' is the largest investment project in the real estate sector not only in Moscow, but also in Russia and across Europe. It is planned to become a new business district in Moscow, equivalent to Canary Wharf in London or La Defense in Paris. Currently there are no other comparable districts in Moscow in terms of its central location, opportunities for large development, critical mass, central planning of the territory development and local government support.

The project is directly controlled by the Moscow Local Government, which provides funding for public infrastructure, metro construction and road network improvements.

Car accessibility to the subject property is provided from the Third Ring Road with junctions to both the northern and southern carriageways, 1st Krasnogvardeysky Proezd, Krasnopresnenskaya and Tarasa Shevchenko Embankments and Kutuzovsky Prospect. The Delovoy Centre and Mezhdunarodnaya Metro stations are located within a five minute walk of the property.

Pedestrian access is the from adjacent embankments and Bagration Bridge, transport access is difficult during the day. As new buildings are completed the additional office employees and visitors may significantly worsen the current traffic situation. Planned improvements are uncertain and may be not sufficient to relieve such pressure.

The subject property is located directly in the centre of the business district, ensuring excellent visibility from all surrounding areas.

Tenure - Land

The land site occupies plot No. 6, 7 and 8b of MIBC 'Moscow City' and has an area of 4.3742 ha. The cadastral number of the site is No.770104042062. The short-term land lease with the special governmental company Center-City CJSC, founded for managing the 'Moscow-City' complex, expired on December 31, 2009. Bellgate Constructions Limited Company, as the owner of the 100 percent share in the retail building and the uncompleted underground parking, has the right to sign a long-term land lease agreement. In accordance with the estimations provided by the Client after the long-term land lease agreement is registered, the annual land rent will be \$434,835.

Tenure – Building

Bellgate Constructions Limited Company, as the winner of the auction, is the investor for this project. The investment agreement is signed between the Moscow Government and Bellgate Constructions Limited.

In accordance with the investment contract the investor obtained a 75 percent share in the development and the municipal share was 25 percent of the total project area (shared with the Moscow Property Department). The parking was to be constructed and operated by the City of Moscow however the investor had to finance the construction of a parking at a minimum cost of USD20 million.

As at the date of valuation 31 December 2011, Bellgate Constructions Limited Company purchased the 25 percent share in the AFI Mall from the City of Moscow and therefore holds 100% freehold interest in the retail building. We have been provided with the title certificate for the building in this respect. The Client has also informed us that the Company has paid in full the purchase price under the agreement and no acquisition payments are outstanding.

As at the date of valuation Bellgate Constructions Limited Company also acquired the underground parking which is 65 percent completed according to the provided title certificate. In accordance with the parking acquisition contract the Company has to pay RUB 4,000,000,000 (VAT inclusive) to the City of Moscow in several instalments during the course of 2012 -2014. In accordance with the instruction from the Client for the purpose of this valuation we have not taken into account the outstanding acquisition payments for the underground parking.

The development concept has been approved by the authorised institutions. The concept was considered as meeting all the town planning requirements. The shopping centre received permission for putting into operation in February 2011 and the title certificate was obtained on 28 December 2011 according to which the gross building area of the shopping centre is 165,924.8m². The underground parking is planned to be completed and put into operation before the end of 2012.

Valued Interest

Subject to the Client's instructions we have valued 100 percent of the freehold interest in the building of the retail centre, 100 percent of the freehold interest in a part of the uncompleted underground car parking (corresponding to 2,035 parking spaces) and the long term leasehold interest in the site.

Development Assumptions

Outstanding capital costs (completion of the parking for 2,035 spaces): \$19,161,959 (excluding VAT)

Terminal Net Operating Income

\$133,877,226 per annum (100 percent share, including income from 2,035 parking places))

Terminal Capitalisation Rate

10.00 percent

Key Attributes

We would highlight the following key attributes in respect of the subject property.

- Central location within the MIBC 'Moscow City' is expected to command high consumer demand.
- Close proximity to public and private transport including, metro stations, the Third Transport Ring and Kutuzovsky Prospect.
- Professional development concept.
- Future competition within the "Moscow City" will not be significant as the majority of the premises in the surrounding buildings will be used as offices.

Principal Risks

We would draw your attention to the following main risks in respect of the subject property.

- Access to the property during rush hours is difficult due to regular heavy traffic congestion in 'Moscow-City'.
- Current uncertainty as regards to retail turnover and footfall.

Valuation in accordance with the special assumptions detailed within this report as at 31 December 2011

\$1,160,000,000

(One Billion One Hundred and Sixty Million US Dollars)

Our ref RU4873
Direct line +7 (495) 737 8000
Direct fax +7 (495) 737 8011
Chris.Dryden@eu.jll.com

1 March 2012

Dear Sir

Terms of Reference

Addressee: AFI Development PLC
25 Olympion Street
3035 Limassol
Cyprus

For the attention of Mr Mark Groysman
Chairman of AFI Rus and Stroyinkom-K

Property Address: Sites 6, 7, 8b, MIBC 'Moscow City', Moscow, Russia

Client: AFI Development PLC

Tenure: **Building**

Bellgate Constructions Limited Company, as the winner of the auction, is the investor for this project. The investment agreement is signed between the Moscow Government and Bellgate Constructions Limited.

In accordance with the investment contract the investor obtained a 75 percent share in the development and the municipal share was 25 percent of the total project area (shared with the Moscow Property Department). The parking was to be constructed and operated by the City of Moscow however the investor had to finance the construction of a parking at a minimum cost of USD20 million.

As at the date of valuation 31 December 2011, Bellgate Constructions Limited Company purchased the 25 percent share in the AFI Mall from the City of Moscow and therefore holds 100% freehold interest in the retail building. We have been provided with the title certificate for the building in this respect. The Client has also informed us that the Company has paid in full the purchase price under the agreement and no acquisition payments are outstanding.

As at the date of valuation Bellgate Constructions Limited Company also acquired the underground parking which is 65 percent completed

according to the provided title certificate. In accordance with the parking acquisition contract the Company has to pay RUB 4,000,000,000 (VAT inclusive) to the City of Moscow in several instalments during the course of 2012 -2014. In accordance with the instruction from the Client for the purpose of this valuation we have not taken into account the outstanding acquisition payments for the underground parking.

The development concept has been approved by the authorised institutions. The concept was considered as meeting all the town planning requirements. The shopping centre received premission for putting into operation in February 2011 and the title certificate was obtained on 28 December 2011 according to which the gross building area of the shopping centre is 165,924.8m². The underground parking is planned to be completed and put into operation before the end of 2012.

Land

The land site occupies plot No. 6, 7 and 8b of MIBC 'Moscow City' and has an area of 4.3742 ha. The cadastral number of the site is No.770104042062. The short-term land lease with the special governmental company Center-City CJSC, founded for managing the 'Moscow-City' complex, expired on December 31, 2009. Bellgate Constructions Limited Company, as the owner of the 100 percent share in the retail building and the uncompleted uderground parking, has the right to sign a long-term land lease agreement. In accordance with the estimations provided by the Client after the long-term land lease agreement is registered, the annual land rent will be \$434,835.

Having been provided with the infromation that as at the date of valuation the Client holds freehold interest in the exisitng building on the site and is in the process of extending the land lease agreement we have made an assumption that the Client has a leasehold interest in the abovementioned land plot.

Valuation Date:	31 December 2011
Purpose of Valuation:	We understand that this valuation report is required in accordance with IFRS regulations for the purposes of your company accounts and specifically for the purpose of implementing Accounting Standard No.15 of the Institute of Certified Public Accountants of Israel.
Basis of Valuation:	Our valuation has been prepared in accordance with the RICS Valuation Standards (7 th Edition) published by the Royal Institution of Chartered Surveyors on the basis of Market Value as defined in Appendix 5 of this report.

The report is subject to, and should be read in conjunction with, the

attached General Terms and Conditions of Business and our General Principles Adopted in the Preparation of Valuations and Reports, which are attached in Appendix 4.

No allowance has been made for any expenses of realisation, or for taxation (including VAT), which might arise in the event of a disposal, and the property has been considered free and clear of all mortgages or other charges, which may be secured thereon.

It is worth noting that our valuation of the Property has been based on the assessments and circumstances stipulated herein. However, it should be emphasized that the price of a real transaction may differ from our estimated value due to a number of different factors, which include intentions of the parties, their negotiating skills, special (e.g. financial ones) terms of the transaction and other factors which may directly refer to the specific deal. Thus, in case of a non-cash transaction or credit sale of the Property, the sale price will be subject to increase. In our valuation, no allowances are made for the above or any other special terms or circumstances which may entail inflation or deflation of the price.

Personnel and Date of Inspection:

The valuation has been prepared by Sergey Osetrov under the direction of Chris Dryden MRICS, Director, Russia & CIS. The property was inspected in February 2012.

We confirm that the personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards.

Status:

In preparing this valuation we have acted as external valuers.

Assumptions:

An assumption is stated in the glossary to the Red Book to be a "supposition taken to be true" ("**assumption**"). Assumptions are facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, need not be verified by a Valuer as part of the valuation process. In undertaking our valuations, we have made a number of assumptions and have relied on certain sources of information. Where appropriate, you have confirmed that our assumptions are correct so far as you are aware. We believe that the assumptions we have made are reasonable, taking into account our knowledge of the property, and the contents of reports made available to us. However, in the event that any of these assumptions prove to be incorrect then our valuations should be reviewed.

Special Assumptions

In arriving at our opinion of value on two of the regarded bases, it has been necessary for us to also make 'Special Assumptions'. In this respect, a Special Assumption is referred to in the Red Book as an Assumption that

either:

- requires the valuation to be based on facts that differ materially from those that exist at the date of valuation: or
- is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances

With regard to this Valuation Report, we are of the opinion that the Special Assumptions set out below are valid, realistic and relevant.

In arriving at our opinion of Market Value we have specially assumed that:

- 1) The Client has freehold rights for the part of the unfinished parking corresponding to 2,035 parking spaces only.
- 2) There are no outstanding acquisition payments for the underground parking as at the date of valuation.

Sources of Information:

We have carried out all the necessary enquiries with regard to rental and investment value and market value, and have investigated planning and approval issues of the subject property.

**Valuation in accordance
with the special
assumptions detailed within
this report as at 31
December 2011:**

\$1,160,000,000

(One Billion One Hundred and Sixty Million US Dollars)

Purchaser's Costs:

In accordance with investment and valuation practice in Russia, no allowance has been made for purchaser's costs in our valuation.

The Directors
Africa Israel Investments Ltd
4 HaHoresh Street,
Yahud, Israel

For the Attention of: The Directors of AFI Development PLC

1 March 2012

Dear Sirs

AFI MALL (formally known as "Mall of Russia")

Reference is made to the appraisal report prepared by us in connection with the property known as AFI MALL (formally known as "Mall of Russia") dated 1 March 2012 (the '**Report**').

In addition to the analyses, assumptions, opinions and conclusions set forth in the Report we hereby represent and confirm as follows:

1. We were contacted and requested by you, on behalf of Africa Israel Investments Ltd, to prepare the Report.
2. Our Report is given as part of the implementation of the International Accounting Standard 40 (IAS 40 - investment property) and for purposes of implementing Accounting Standard 29, which adopts the International Financial Reporting Standards (IFRS), in the financial statements of Africa Israel Investments Ltd.
3. From time to time, we provide real estate appraisals and evaluations to other companies within the Africa Israel Investments Ltd group; however, our firm is independent of this company or any company controlled by this entity.
4. We hereby represent that we do not have any personal interest in the contemplated asset and/or in its owners, and the appraisal thereof hereunder has been prepared by us in accordance with our best and professional knowledge, skills and consideration.
5. We hereby agree that our Report, together with this letter, be included in the Africa Israel Investments Ltd.'s publicly published financial statements for the period ending 31 December 2011, which will be published in March 2012.

The above mentioned in this letter shall constitute for all purposes as an integral part of our Reports.

Yours faithfully,

Chris Dryden BLE MA MRICS
Director
On behalf of Jones Lang LaSalle

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Appendices

Appendix I Calculations

Appendix II Photographs
Typical floor plan

Appendix III General Principles Adopted in the Preparation of Valuation and Reports

Appendix IV Extract from the RICS Valuation Standards (7th edition)

Appendix V

1 Location

1.1 Location

The subject property is located in the Central Administrative District (CAD) of Moscow. The Central Administrative District occupies 66.2 km² or 6.1 percent of the total Moscow area. The number of Muscovites and visitors who reside in or visit the Central Administrative District is approximately 2.28 million people a day. It also should be mentioned that the population density of the district is 10,500 people per km², which exceeds the Moscow average (of 9,500 people per km²), making it one of the three most densely populated Moscow districts¹. The Central Administrative District is divided into 11 areas.

The map below shows the property's location, which is marked in red.

The population of the Central Administrative District is unevenly distributed. Around 30 percent of the population resides within the Garden Ring. The most densely populated areas are: Arbat, Yakimanka and Basmanny. These areas largely comprise modern low-rise dwellings adjoining historic developments. The population density in these areas ranges from 20,000 to 60,000 people per km². Meschanskoye is the least densely populated area in the entire district (up to 5,000 people per km²). The remaining areas have a population density at an approximate average of 10,000 people per km².

The Central Administrative District contains the historic city centre and thus is considered as a prime residential area. The fact that the elite have traditionally resided there (in the Soviet era – the Communist Party and nowadays the financially and politically elite) adds to the attraction of the District to prospective inhabitants. Although the city centre is not the only prime residential location in Moscow, it is considered as the prime area in terms of services

¹ Source: Rosstat

² Source: Rosstat

such as transport, retail and cultural/leisure infrastructure. The Central Administrative District is 'a city within a city' where residents enjoy better living conditions in terms of the urban infrastructure.

1.2 District

The subject property is located in the Presnensky District of the CAD. The area of Presnensky district totals 112.2ha. In the south the Moscow River borders the district for over 5 km. Part of the Garden Ring, extending to 1.8 km, passes through the territory of the region.

There are 165 streets and almost 800 residential buildings in Presnya. The main part of the district's housing stock was built between 1900 and 1962. Its total area amounts to 2,352,400 m².³ It is estimated that nearly 35 percent of residential buildings require capital repairs.

At the beginning of 2008 the permanent population of the district comprised 104,600 people, while its actual population (including temporary residents) is 116,100 people⁴.

Major thoroughfares within the district include: Krasnaya Presnya Street, 1905 Goda Street, Zvenigorodskoye Shosse, Krasnopresnenskaya Embankment, Bolshaya Sadovaya, Sadovaya-Kudrinskaya, Mantulinskaya, Bolshaya and Malaya Nikitskaya and 2nd Brestskaya streets.

There are the following objects of federal and municipal use located in the district: the House of Government of the Russian Federation, World Trade Centre, Moscow Zoo, Kinocenter, ITAR-TASS, and Expocenter. One of the largest international business centres in Europe, 'Moscow City', currently under construction, is also located here.

One of the key features of the Presnensky district is the quantity of industrial enterprises, scientific and administrative buildings on its territory. However, redevelopment of industrial zones and construction of MIBC 'Moscow City' has resulted in a significant decrease in industrial enterprises within the district. Another peculiarity of Presnya is the high concentration of cultural institutions, historical and architectural monuments.

1.3 Micro Location (MIBC 'Moscow City')

The subject property is located on Krasnopresnenskaya Embankment, within the Moscow International Business Centre (MIBC) 'Moscow City'. At present, MIBC 'Moscow City' is the largest real estate investment project not only in Moscow, but also in Russia and across Europe. It is being developed on Krasnopresnenskaya Embankment on a 60 ha plot of land (buildable area). The business centre will include several high-rise mixed-use developments including office, retail, hotel and entertainment facilities.

The project can be considered as internationally significant with some of the world's foremost architects specialising in high-rise buildings contributing. 'Moscow City' has drawn upon worldwide experience in high-rise business centre construction in locations as diverse as Battery Park in New York, Canary Wharf in London, First Canadian Place in Canada, and La Defense in Paris.

'Moscow City' was designed to become a new business district including high-rise office buildings of international quality with well-developed transport, retail and business infrastructure. The 'Moscow City' site development is directly controlled by the Moscow Government, which provides financing for public infrastructure, metro construction and road network improvements.

Currently MIBC 'Moscow City' is in an active stage of construction, although some of the projects have been frozen and work on others has slowed dramatically in response to the crisis. MIBC 'Moscow City' is a multi-purpose Class-

³ Source: www.napresne.info

⁴ Source: www.napresne.info

A office/administrative centre with the special status of an autonomous territory, it was created to be a high quality city environment to meet the international demands and standards expected of a business and exhibition complex.

The plan below provides an illustration of the location of the subject property in the context of the proposed, neighbouring MIBC 'Moscow-City' development projects. It should be noted that the situation is unclear at present in respect of which buildings will be completed and the likely timescale, as many developers are facing financing issues and the office market has been particularly badly affected by the crisis.

General information:

- Development areas comprise a total area of approximately 4.5 million m²;
- Population:
 - The estimated number of office employees is approximately 250,000 to 300,000 people;
 - The estimated number of visitors for the retail section (external & office workers) is between approximately 50,000 to 150,000 people per day;
- Management:
 - The project is directly controlled by the Moscow Local Government, which provides funding for public infrastructure, metro construction and road network improvements;
 - The general development of 'Moscow City' is managed by Centre-City JSC.

It is planned that the area surrounding Moscow City will also be developed and 'Moscow City' will become a part of the more significant project known as the 'Big City'.

The 'Big City' project is located across the four administrative districts of Moscow and covers an area of about 1,000ha.

The proposed project includes the construction of administrative and business buildings, retail and entertainment centres, recreational zones and residential developments. Most of the industrial enterprises located here will be removed to other parts of Moscow or to the outskirts. According to the concept of the project, approved by the Moscow Government Decree No 201-ПП as of 27.03.2007, 'Big City' was expected to consist of a total construction area of 21 million m². The residential areas were to comprise 8.6 million m², office and administrative – 7.9 million m². About 1 million m² was intended for communications and municipal use. According to local authorities' opinion, such distribution will have allowed the balance between residential and office construction and managed to help to avoid excessive competition.

The development was planned to be brought forward in three phases. The first stage includes MIBC 'Moscow-City', Expocenter, the Kamushki mixed-use complex with associated residential blocks, the residential and commercial zone Zvenigorodskaya and a municipal site near Vagankovskoe cemetery. The total building area within the first stage is about 5.6 million m² and it was planned to complete the first phase by 2010, however, because of the financial crisis it is unclear how much of the project will be constructed and when it will be completed.

Due to latest changes the building of Moscow City Government was refused and building of City Transport Terminal is stalled at the basement level.

1.4 Accessibility

By Car

- **Existing:** Third Ring Road (from the northbound and southbound carriageways), 1st Krasnogvardeysky Proezd, Krasnopresnenskaya, Presnenskaya and Tarasa Shevchenko Embankments and Kutuzovsky Prospect.
- **Projected improvements:**
 - Construction of the road connecting MIBC 'Moscow City' with Zvenigorodskoe Shosse by 2015
 - Construction of two secondary highways for Kutuzovsky Prospect in (northern and the southern). The northern highway (Moscow - Borodino) will lead from MIBC 'Moscow City' to Molodogvardeyskaya Highway, while the southern one will go along the Kievskoe line of the Moscow railway from Minskaya Street to Aminyevskoe Highway
 - Widening of the 1st Krasnogvardeysky Proezd and construction of an overpass and a link to the alternative highway for Kutuzovsky Prospect by 2015
 - Reconstruction of Makeeva and Antonova-Ovseenko Streets

At present, neighbouring roads are heavily congested with traffic. We are of the opinion that construction of the above mentioned new highways will increase the capacity of the main access routes to 'Moscow City' but still the planned improvements will not be enough to handle the potential increase in car numbers during rush hours.

New initiatives of Moscow Government are intended on building extra roads in order to connect Moscow City with Shmitovskiy Proezd, Karamyshevskaya Embankment and other streets.

Public transport

- **Existing:** Metro stations Vystavochanya and Mezhdunarodnaya (located within a five minute walk of the site) connect with Kievskaya station on the Filyovskaya line. There are planned and existing stops for bus routes 12 ('Moscow City'), 77, 91, 116, 205, 240, 157, 157e, 518 and trolley-buses 2, 7, 39, 44 ('Kutuzovskiy Prospekt'). In addition the following services are close by: bus 4, tram 23 and trolley-bus 54 ('Shmitovskiy Proezd').
- **Projected improvements:**
 - Additional exits and underpasses from Mezhdunarodnaya and Vystavochnaya metro stations leading directly to the central core of 'Moscow City' business centre (to the underground level of 'AFIMALL' shopping centre) are provided
 - We understand that the Moscow Government intends to link Vystavochnaya with Park Pobedy metro station (on Kutuzovskiy Prospekt) in 2013
 - The Moscow Government plans to extend the Filyovskaya metro line by 2015. The extension of the metro line from Mezhdunarodnaya to Polezhaevskaya and also to the Zamoskvoretskaya and Serpukhovsko-Timiryazevskaya lines will create a new interchange. It will include the construction of new stations including three connections to other lines. This project will significantly increase the potential capacity of Vystavochnaya and Mezhdunarodnaya metro stations
 - The design of an extension to the Kalininskaya line from Tretyakovskaya station to Moscow City is scheduled to be launched shortly. This project will provide the business district with a second metro line. The Moscow Government plans to have this project completed by 2015

Pedestrian

- **Existing:** adjacent embankments, Bagration Bridge
- **Projected improvements:**
 - Pedestrian route from Neskuchny Sad to 'Moscow City',
 - Pedestrian Ring Road around MIBC 'Moscow City' (from Bagration Bridge to 1st Krasnogvardeyskiy proezd,
 - Pedestrian underpasses near the south-west entrance into the Central Core, as well as underpasses under 1st Krasnogvardeyskiy Proezd and along Botanicheskiy Sad,
 - Pedestrian travelator system providing connection between Tarasa Shevchenko Embankment and Kutuzovskiy Prospekt and MIBC 'Moscow City'.

In addition to the above mentioned proposed improvements to the transport infrastructure of the district, construction of the following alternative transit systems is proposed:

- The Moscow Rail Ring Road planned to include about 30 stations (10 of them have connections with the metro, five with suburban railways, three with the Rapid Transit System). The project also includes construction of parking near stations located on the main highways. The Moscow Rail Ring Road is constructed by the Russian Railways and the Moscow Government, at present the date of construction completion is unclear.

'Moscow City' has a convenient location close to the city centre and subject to the above mentioned improvements, the business zone will have good transport accessibility.

The shopping centre will include a rail terminal linking it to Sheremetevo and Vnukovo airports via the Rapid Transit System. The terminal will also be linked to the new 'mini metro' line with two stations: 'Mezhdunarodnaya' and 'Vystavochnaya'.

1.5 Visibility

The subject property is located directly in the centre of the business district. This ensures its excellent visibility from all of the adjacent areas.

1.6 Conclusions

- The subject property is located in the Central Administrative District of Moscow, this district is the historic city centre and considered a prime residential area
- Moscow City is already becoming established as a new business district in Moscow, equivalent to Canary Wharf in London or La Defense in Paris. Currently there are no other comparable districts in Moscow in terms of centrality of location, opportunities for large development, critical mass, central planning of territory development and local government support
- The project is directly controlled by the Moscow Local Government, which provides funding for public infrastructure, metro construction and road network improvements
- The transport situation is crucial. Future office employees and visitors may significantly worsen the traffic situation. The planned improvements are also uncertain and may be not sufficient to relieve such pressure
- Some of the projects have no fixed concept yet and it is unclear which projects will be completed due to the consequences of the crisis, therefore the competition volume can not be determined exactly.

2 Description

2.1 Site

The total area of the site is 4.3742 ha, which is made up of a total of three land plots referred to as No. 6, 7 and 8b.

The sites are located in the centre of MIBC 'Moscow City'. To the south of the site are land plots No.2-3 (City Palace), No.4 (Aqua Palace and Imperia Tower), No.9 (Capital City), No.10 (Naberezhnaya Tower), to the west – land sites No.8a (Hotel), No.11 (Moscow-City Transport Terminal), to the north – land sites No.12 (Eurasia Tower), No.13 (Federation Complex), No.14 (Mercury City Tower), No.15 (Moscow City Government). To the east of the site there is an Expocenter Exhibition Hall.

The site forming the subject property is currently held under a short-term land lease interest (expired on 31 December 2010, being renewed as of the date of valuation). The cadastral number of the site is No.770104042062. This site is intended for the design and the construction of the above ground element of the Central Core.

All the above mentioned land plots are located in cadastral block No. 77:01:04042. The cadastral value for this block, in accordance with the Moscow Government decree No.1046-ПП dated 04.12.2007, is shown below (RUB per m²):

Lands under residential complexes	- RUB 60,384.17
Lands under office buildings	- RUB 60,941.05
Lands under retail	- RUB 56,832.99

There is also an underground section of the Central Core (the first phase) located under the property.

The underground part of the site has been developed by the Moscow Government. It includes the metro station "Delovoy Centre" at the markers 105.20 and 109.20, the parking and the technical facilities at the markers 114.4, 117.45 and 121.0.

The Central Core part of 'Moscow City' is surrounded by the road at the 121.00 marker, as well as the perimeter transport ramp at 129.70 marker. The south-western entrance has also been constructed.

2.2 Building Description

Our estimations have been based on information from the approved design of the project (stage П) undertaken by the “Urban Planning Institute of Residential and Public Buildings” and provided to us by the Client.

The above-ground part of the Central Core of MIBC ‘Moscow City’ is part of a multi-functional complex situated on plots 6, 7, 8a and 8b of ‘Moscow City’, which is built above the existing underground section.

The subject property comprises super-regional retail complex with a limited office accommodation and underground parking. The gross building area (GBA) of the shopping centre part is 165,924.8m². It consists of six retail levels.

Project characteristics are presented in the table below.

Table 1

No	Index	Value
1.	Building	Part of the ‘Moscow City’ Central Core Complex (Phase I)
2.	Type	Shopping Centre
3.	Type of premises	Retail, Offices
4.	Area of the site	4.3742 ha
5.	Foot-print	~43,742 m ²
6.	Gross building area (shopping centre part)	165,924.8 m ²
7.	Underground car parking, spaces	2,035 out of total 2,700
8.	Construction volume of the building	n/a
9.	Number of storeys (shopping centre)	6
10.	Number of storeys (car parking)	3-underground levels
11	Height	179 m

The above ground part of the Central Core of MIBC ‘Moscow City’ forms part of a multi-functional complex situated on plots 6, 7, 8a and 8b of ‘Moscow City’, which is built above the existing underground section. The project has underground parking for 2,700 parking spaces (arranged in three underground levels), being under construction as at the date of valuation. We understand from the Client that as at the date of valuation there are ongoing negotiations regarding the sale of 665 parking spaces in the underground parking after it is completed. Therefore in accordance with the instruction from the Client for the purpose of this valuation we have excluded the above spaces from our consideration and specifically assumed that the shopping centre will have 2,035 car parking spaces only.

The design of the above ground part was created with consideration of the existing underground part of the Central Core. The vertical communications, engineering systems and the vertical shafts exit through the roof of the above ground part.

The project suggests the creation of a Central Core complex whereby the levels are connected with the surrounding plots as follows:

- Level 124.60 is the underground area connecting the neighbouring plots 2, 8, 9, 10 and 15 via pedestrian bridges
- Level 129.70 is connected with the surrounding development by means of a circular train, which leads to the ramp.
- Level 136.30 is connected directly with the public square. The connection between the pedestrian zone of the retail and entertainment complex and the hotel complex is provided by the square, creating the first level of atrium space

2.3 Dimensions

The general characteristics of the functional zones included into the development are presented below:

Table 2

No		
1.	Retail Centre "AFI Mall"	
	Class	Super-Regional
	Proposed tenants	Wide range of strong international and federal retailers, about 50% of the space will be occupied by anchors
	Total area, m ²	165,924.8
	Leasable area, m ²	107,121
	Terms of letting	Shell & Core

A more detailed breakdown of the retail accommodation is set out below:

Table 3

Type of tenant	GLA, sq m
level 0 (124.6)	
Anchor stores (Fashion)	9,510
Mini-anchors	5,632
Boutique shops	13,408
Cafes	386
Sub-Total, leased area, level 124.6	28,936
level 1 (129.7)	
Supermarket	2,364
Anchor stores (Fashion, Perfumery, Household)	8,773
Mini-anchors	1,623
Boutique shops	7,000
Cafes	587
Sub-Total, leased area, level 129.7	20,346
level 2 (136.3)	
Department Store (1st level)	2,227
Anchor stores (Fashion)	4,983
Mini-anchors	1,270
Boutique shops	6,489
Cafes	30
Sub-Total, leased area, level 136.3	14,999
level 3 (142.45)	
Anchor stores (Kids, Sport Goods, Multimedia, Entertainment)	8,186
Mini-anchors	1,016
Boutique shops	4,679
Food-court, cafes	1,338

Sub-Total, leased area, level 142.45	15,220
level 4 (148.6)	
Anchor stores (Multimedia, Sport)	1,862
Cinema	6,980
Mini anchors	0
Boutique shops	496
Cafes, restaurants	8,012
Sub-Total, leased area, level 148.6	17,351
Other income	
Winter garden area	3,641
Kiosks	951
Offices	1,115
Storage	2,504
Food court sitting area	1,359
Terrace	700
Sub-Total, leased area, Other income	10,270
Total GLA	107,121

2.4 Project Development Timeline

The retail centre was put into operation in March 2011, however, the underground parking is not completed as at the date of valuation and is expected to be put into operation during the course of 2012. According to the provided information the outstanding construction costs for parking completion (2,035 spaces) are estimated at \$19,161,960 excluding VAT..

2.5 Marketing Period

We estimate the proper marketing period to ensure sufficient exposure time for the subject property will be over 15 months. This marketing period assumes the sale of the property through offering the shares in the SPV to a number of institutional investors. Such a transaction takes more time in comparison with the normal sale of the assets to a single investor and we have taken this into account in our valuation.

2.6 Environmental Considerations

We have been instructed not to make any investigations in relation to the presence or potential presence of contamination in land or buildings, and to assume that if investigations were made to an appropriate extent then nothing would be discovered sufficient to affect value. We have not carried out any investigation into past uses, either of the properties or any adjacent land, to establish whether there is any potential for contamination from such uses or sites, and have therefore assumed that none exists. In practice, purchasers in the property market do require knowledge about contamination. A prudent purchaser of this property would be likely to require appropriate investigations to be made to assess any risk before completing a transaction. Should it be established that contamination does exist, this might reduce the value herein reported.

3 Legal

3.1 Tenure

We have been provided by the Client with copies of the following documents:

- A Moscow Government Decree, dated 20 June 2005 No.1098-ПГ
- A Moscow Government Decree, dated 24 August 2010 No.1761-ПГ
- An Investment contract, dated 24 June 2005 No.12-026022-5001-0012-00001-05, between Moscow Government and Bellgate Construction Limited about the construction of the aboveground part of the Central Core of MIBC 'Moscow City'
- An additional agreement, dated 05 September 2008 No.1, to the abovementioned Investment contract, under which the terms of construction are extended until 01 April 2010 and the area of the maximum permissible area of the building is extended from 150,000 m² to 179,930 m²
- Land Surveying Report by Moscow Land Department as of 10 August 2005, with the plan of the land site and specification of the area
- A short-term Land lease agreement, dated 10 November 2005, No.M-01-512770 (registration number as of 13 December 2005, No.01-105760-0000-0000-00000-05)
- An additional agreement, dated 19 June 2006 No.M-01-512770/1, to the abovementioned land lease agreement
- An additional agreement, dated 26 August 2008 No.M-01-512770/3, to the abovementioned land lease agreement, according to which the term of the agreement is extended until 31 December 2009
- Concept of the Central Core aboveground part by NATAL LLC as of 2006
- The extract of the Town-planning Commission in the Moscow Architectural Council Proceedings No.36, dated 15 December 2006, about the approval of the concept
- A shopping mall design development, dated 18 December 2006, (release 03) provided by 'BRISBIN BROOK BEYNON, architects' (Canada)
- The Act of Permitted Usage as of 27 June 2007 No.A-3946/98
- Construction permit No.RU77181000-000863 as of 27 January 2007, extended until 25 June 2008
- Exhibit No.12 for the Contract No.2006/159/PL-CORE-01 between Bellgate Construction Limited and ENKA (costs of designing, working documentation and construction of the superstructure of the Central Core MIBC 'Moscow City')
- A State Contract, dated 08 October 2008, No.105110 between Moscow Capital Construction Department and LLC 'Stroyinkom-K' about the designing of the Concert Hall
- Positive conclusion of the Moscow State Expertise on the project documentation for the shopping centre construction, dated 25 December 2008, No.SI 12368
- The title of the Regulating Album, which approves its endorsement by the local authorities
- Special technical specifications for the designing of the Multifunctional Retail and Entertainment Centre, dated 19 December 2008, No. 19-22-4471, prepared by LLC 'OPB Pozhaudit'
- A Moscow Government Order, dated 12 December 2008, No. 98440831/22/2, which extends permission for the execution of ground works, provision and maintenance of the construction site until 31 December 2009
- The actual letting floor plans (as of December 2011)

- Information outstanding construction costs as at 31 December 2011 (prepared by the Client)
- Meeting Protocol on the design and construction of the Central Core, approved by the First Deputy of the Mayor of Moscow as of 31 December 2009 No 25-13-276/9-0-(1)
- The approval of Mosgosstroynadzor, #6-P/3OC, dated 21 January 2011
- Permission for putting into operation, issued by Mosgosstroynadzor, # RU77181000-003371, dated 21 February 2011
- Lease agreement for the parking executed between GARDENPARK TRADING AND INVESTMENTS LTD and Bellgate Construction Limited, dated 20 May 2011
- Sale-purchase agreement for the unfinished building (underground parking) dated 7 December 2011 executed between 'Center-City' State Unitary Enterprise and Bellgate Construction Limited
- Floor plans of the underground parking
- Extract from the draft agreement for the sale of 665 parking spaces within the underground parking
- Ownership Certificate #77AH 678357 dated 28 December 2011 for the non-residential premises with a total area of 165 924.8 m² located at: 2, Presnenskaya Embankment, Moscow.
- Ownership Certificate #77AH 655206 dated 30 December 2011 for the unfinished building with a built-up area of 43,742 m², located at: land plots #6,7,8b, MIBC 'Moscow City', Krasnopresnenskaya Embankment, Moscow. The degree of completion is estimated as 65 percent.
- Information on the actual operating expenses as at December 2011 and forecast budget of the operating expenses for the period of 2012-2015
- Tenancy schedule as at 31 December 2011
- Information on other income
- Information on the provided discounts to the existing leases
- Templates of the typical lease agreements

3.2 Conclusions

On the basis of the documents provided, the consultant has arrived at the following conclusions regarding the subject property:

- Bellgate Constructions Limited Company, as the winner of the auction, is the investor for this project. The investment agreement is signed between the Moscow Government and Bellgate Constructions Limited (Investor).
- In accordance with the investment contract the investor obtained a 75 percent share in the development and the municipal share was 25 percent of the total project area (shared with the Moscow Property Department). The parking was to be constructed and operated by the City of Moscow however the investor had to finance the construction of a parking at a minimum cost of USD20 million.
- As at the date of valuation 31 December 2011, Bellgate Constructions Limited Company purchased the 25 percent share in the AFI Mall from the City of Moscow and therefore holds 100% freehold interest in the retail building. We have been provided with the title certificate for the building in this respect. The Client has also informed us that the Company has paid in full the purchase price under the agreement and no acquisition payments are outstanding.
- As at the date of valuation Bellgate Constructions Limited Company also acquired the underground parking which is 65 percent completed according to the provided title certificate. In accordance with the

parking acquisition contract the Company has to pay RUB 4,000,000,000 (VAT inclusive) to the City of Moscow in several instalments during the course of 2012 -2014. In accordance with the instruction from the Client for the purpose of this valuation we have not taken into account the outstanding acquisition payments for the underground parking.

- The project has underground parking for 2,700 parking spaces, being under construction as at the date of valuation. We understand from the Client that as at the date of valuation there were ongoing negotiations regarding the sale of 665 parking spaces in the underground parking after it is completed. Therefore in accordance with the instruction from the Client for the purpose of this valuation we have excluded the above spaces from our consideration and specifically assumed that the shopping centre will have 2,035 car parking spaces only.
- The land site occupies plot No. 6, 7 and 8b of MIBC 'Moscow City' and has an area of 4.3742 ha. The cadastral number of the site is No.770104042062. The short-term land lease with the special governmental company Center-City CJSC, founded for managing the 'Moscow-City' complex, expired on December 31, 2009. Bellgate Constructions Limited Company, as the owner of the 100 percent share in the retail building and the uncompleted underground parking, has the right to sign a long-term land lease agreement. In accordance with the estimations provided by the Client after the long-term land lease agreement is registered, the annual land rent will be \$434,835.
- The development concept has been approved by the authorised institutions. The concept was considered as meeting all the town planning requirements. The shopping centre received permission for putting into operation in February 2011 and the title certificate was obtained on 28 December 2011 according to which the gross building area of the shopping centre is 165,924.8 m². The underground parking is planned to be completed and put into operation before the end of 2012.

On the basis of the abovementioned conclusions, we have made the following assumptions in our valuation:

- The property was put into operation in March 2011 and we expect that the construction of the parking can be completed before the end of 2012;
- Having been provided with the information that as at the date of valuation the Client holds freehold interest in 100 percent share in the retail building and the uncompleted underground parking, we have made an assumption that the Client has a long-term leasehold interest in the abovementioned land plot.
- Subject to the Client's instructions we have valued 100 percent of the freehold interest in the building of the retail centre, 100 percent of the freehold interest in the part of the uncompleted underground car parking corresponding to 2,035 parking spaces and long term leasehold interest in the site.

Jones Lang LaSalle has not carried out any legal expertise of the information provided by the Client. We have not been provided with a report on ownership in respect of this property and recommend that should such a report be prepared that we be provided with a copy and given the opportunity to reconsider our opinion of value in light of its contents.

3.3 Tenancy

We have been provided with the tenancy schedule as at 31 December 2011 by the Client for the subject property and we understand that the subject building provides 107,121 m² of total gross lettable area.

At the date of valuation the property was 73 percent occupied, however, according to the provided tenancy schedule a number of leases for the premises with a total area of 6,143 m² were under the process of termination as at the date of valuation. For the purpose of this valuation we have assumed these premises as being vacant as at the date of valuation. Excluding the leases under termination, the occupancy rate is 67 percent.

The main anchors of the Property are Perekrestok, Russia's largest food retailer, Formula Kino, Kosmik, Eldorado, Inditex. The lease term varies from 3 to 12 years.

According to the provided information the rents are generally subject to the annual indexation. The indexation rate is generally fixed and varies from 5% to 10%. The majority of the rents are denominated in US Dollars. The majority of rents are paid monthly.

The rents do not include service charges and marketing charges which are paid separately and vary from \$50 to \$377 per sm per annum and from \$9 to \$25 per sm per annum respectively.

About 35 percent of the signed lease agreements contain step rents conditions during the first 2 to 5 years of leases.

A number of tenants have negotiated temporary rent discounts to the initially contracted rent. The discounts were generally agreed for the period of 6 months. The discount varies from 10 percent to 100 percent of the base rent, in most cases being 50 percent. Overall the discounts decreased the initially contracted rental income in the 1st year of lease by around 3.5 percent.

3.4 Valued Interest

Subject to the Client's instructions we have valued 100 percent of the freehold interest in the building of the retail centre, 100 percent of the freehold interest in a part of the uncompleted underground car parking (corresponding to 2,035 parking spaces) and the long term leasehold interest in the site.

3.5 Town Planning

As at the date of valuation the shopping centre was in operation. The underground parking is expected to be completed before the end of 2012.

We are not aware of any outstanding planning applications or decisions granted on the subject property that are likely to have any material impact on value.

4 Highest and Best Use Analysis

The highest and best use (HBU) of a real estate asset is the one that is physically possible, legally permissible, financially feasible, and must result in the highest value.

For valuation purposes, a real estate property may be considered as two separate constituents, which are the land plot and its improvements (buildings, developments, utility lines, etc. constructed on it or under it); therefore, in estimating a real estate property, appraisers estimate the highest and best use of land (as if vacant) and the highest and best use of the property (as improved). Estimation of each of the HBU types requires a separate analysis. However, as one can see, both are estimated under the following four criteria:

- legality;
- physical possibility;
- financial feasibility, and
- highest profitability.

Any use of a real estate asset shall be viewed from the above four points, which are to be applied in that order. In the event that some potential use option does not meet any of the four criteria, such an option shall be disregarded and replaced with another one. The HBU shall meet all of the above four criteria.

The land plot was provided for the construction of a multi-functional complex. This means that, from a legal perspective, the asset envisages only one function. As a result, we are of the opinion that the current use of the site represents its highest and best use .

5 Market Commentary

5.1 Russian Economic Overview

Expectations for the global economy, while still uncertain and looking comparatively more stable, with Europe being the center of attention. However positive movement in the US employment rate has also been observed. Overall, the current slowdown is predicted to be much milder than 2008-2009 recession. IHS Global Insight predicts global GDP growth at 2.7% in 2012, down from 3% last year. Nevertheless, uncertainty remains pronounced and risks will be on the downside of the current view as long as the Eurozone debt crisis persists. Recent credit downgrades for a number of economies, including France, only add to the problem. Moreover, the European banking sector is also feeling the strain. Interbank rates have risen to post-Lehman's highs as investors withdraw and the risk of another credit crunch looms.

Table 4: 2012 GDP Forecast from IHS Global Insight: Recent Movements

Date of forecast	France	Czech Republic	Poland	Germany	UK	China	Russia	Japan	USA
Nov 2012	0.2	1.3	2.8	0.8	0.8	8.1	3.9	2.6	1.6
January (latest)	-0.7	0.4	2.0	0.2	0.3	7.9	3.7	2.9	2.0
Change (bsp)	-90	-90	-80	-60	-50	-20	-20	30	40

The most obvious obstacle for the Russian economy is the ongoing sovereign debt crisis in Europe, which is preventing growth by depressing exports and investment flows. Although IHS Global Insight decreased Russia's GDP forecast by 20 BPS, to 3.7% in 2012, the Russian economy still looks healthier compared to some other countries and is better positioned to withstand the shock than it was in 2008.

According to Rosstat's preliminary estimate, Russian GDP expanded 4.3% YoY in 2011 vs. 4.0% in 2010. The pace of industrial production growth moderated to 2.5% in December, posting annual growth of 4.7% YoY in 2011 compared to the recovery of 2010. Recent upward performance of fixed investments and construction sectors, which is expected to continue, will add up to 2012 economy growth.

Graph 1: Real GDP growth: International comparison, YoY

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

Graph 2: Construction and fixed investments growth

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

Consumer sector continues to be the major driver of Russia's economic growth in 2011, with retail sales up 7.2% YoY in 2011. Consumer demand will grow further after the government increase wages and pensions in the public sector and the military. Moreover, recovered consumer lending and declining inflation will provide support to retail sales.

Graph 3: Real wages and retail sales growth, YoY

Graph 4: Consumer loans issued in Russia

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

In 2011 Russia made a significant step in WTO accession and tightening integration within the CIS. WTO accession is to be completed by mid-2012, which in the longer term is expected to spur structural reforms, vital for the Russian economy and FDI growth. Customs Union of Russia, Belarus and Kazakhstan eliminated their customs borders. Moreover, on the way to the Eurasian Union, members agreed to create the Common Economic Area, aimed at freedom of movement for labour, capital, and goods, also beneficial for Russia's economic growth.

Table 5: Key macroeconomic indicators

	2010	2011	2012F
Nominal GDP (USD bn)	1,480	1,852	2,107
Real GDP growth (%)	4.0	4.3	4.1
Unemployment (% , year-end)	7.2	6.1	6.5
CPI (%)	8.8	6.1	5.8
Exchange rate (RUB/USD, year-end)	30.48	32.2	30.5
Real wage growth (% , YoY)	4.2	3.5	5.0
Retail trade turnover (USD bn)	541	650	750
Real retail sales growth (% , YoY)	4.4	7.2	5.5
Urals oil price (USD/barrel, year-end)	91.2	105.7	100.0
FDI into Russia (USD bn)	41.2	40.0(E)	50.0
International Reserves (USD bn)	479.4	498.6	590.0

Source: Rosstat, Ministry of Economic Development, Central Bank of Russia, IHS Global Insight, Bloomberg, Barclays Capital, Jones Lang LaSalle

5.2 Moscow Economy

Moscow is the largest economic, political, and scientific centre of Russia. The city's wealth of scientific, technical and industrial potential forms the basis of its economy. Many large industrial enterprises that operate within the city represent various industry sectors, including engineering, metalworking, building materials, and defence. Moscow is also one of the largest transportation centres in Russia and Eastern Europe. Banking and finance are also important sectors of Moscow's economy.

During the last several years Moscow was attracting significant international investor interest due to its wealth of opportunities, improving business environment, attractive recent economic performance, positive short-term outlook and substantial long-term growth potential. Moscow still remains the most attractive Russian city in terms of direct investment.

Population

Moscow is Europe's largest city in terms of population, and ranks alongside London, Paris and Istanbul as one of Europe's four "Mega-Cities". The City has an official population of 11.6 million, with a further 7.1 million housed in the surrounding Moscow Region, creating a greater metropolitan region of 18.7 million inhabitants. Whilst the CEE region and Russia have seen their populations decline (largely due to low birth rates and migration), Moscow stands alone as the only major city in the region whose population is growing rapidly.

Graph 5: Moscow Population Dynamics

Source: Rosstat

Key economic indicators

Being the economic centre of Russia, Moscow provides significant part of Russia's Gross Economic Product (about 22% of total GRP). Moscow economy is characterized by actively developing service sector, low debt and high budget indicators.

Graph 6: GDP growth, Moscow vs. Russia (%)

Source: Rosstat, Department of Moscow Economic Policy and Development

During recent years Moscow macroeconomic indicators were growing steadily. In 2002-2007 average annual GRP growth was 9.6%, real income growth – 10%, retail turnover growth – 5.6%. All these indicators were supplemented by strong government finance. At the end of 2008 the crisis hit the economy and led to the slowdown in city development. However, after a sharp decline of major macroeconomic indicators through Q4 2008 – Q2 2009, Moscow economy has been reviving since H2 2009.

Table 6: Moscow key economic indicators

Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2011
GRP YoY, %	8.8	7.2	12.5	10.7	8.3	7.7	-12.8	5.0	4.0 (E)
Inflation, %	10.4	11.5	10.4	9.0	10.2	12.3	9.8	9.1	6.4
Retail trade real growth YoY, %	4.1	8.3	6.2	7.1	5.1	5.3	-4.0	6.8	6.6
Retail trade turnover, RUB bn	1,179	1,370	1,586	1,818	2,040	2,366	2,502	2,882	3,322

Source: Rosstat, Department of Moscow Economic Policy and Development

In 2007 Moscow GRP grew by 8.3%. In 2008 the city economic growth rate slowed down to 7.7% followed by 12.8% decline in 2009, according to Rosstat estimate, due to the world financial crisis. However, in 2010 Russian economy recovered with Moscow GRP increased by 5% according to Department of Economic Policy and Development of Moscow. In 2011 Department of Economic Policy and Development of Moscow estimates Moscow GRP growth to slow down to 4%.

The Moscow retail turnover reached USD79 billion in 2009 that is 4% lower than in 2008 in real terms. However in 2010 Moscow retail has been reviving rapidly, showing higher than average growth rates among Russian regions. Moscow retail turnover increased to USD95 billion in 2010. According to Rosstat, retail trade real growth slightly moderated to 6.6% in 2011 from 6.8% in 2010.

Income distribution of Moscow residents is quite uneven. The wealthiest population groups are concentrated in the City centre and in the semi-peripheral Western parts of the City.

In 2009 average per capita monthly income in Moscow reached USD1,417, while in 2010 it went up to USD1,516. It moderated to USD1,400 in January-November 2011.

The unemployment rate in Moscow is the lowest among Russian regions and it amounted to 2.7% at the end of 2009 and shrank to 1.7% in 2010. In October – December 2011 unemployment rate in Moscow decreased to 1.1% vs. 6.3% in Russia.

In 2011 inflation has noticeably decreased both in Moscow and Russia, ending the year at 6.4% and 6.1% respectively, compared with 9.1% and 8.8% in 2010. Though generally Moscow consumer inflation is slightly lower, than in Russia.

Graph 7: Moscow retail turnover and income

Source: Rosstat

Foreign investments into Russia were increasing at a rapid pace. The capital inflow reached record levels (USD82.3 billion) in 2007. A large portion was coming as FDI, which reached USD75 billion in 2008 vs. USD55 billion in the previous year. Moscow took a significant share of the total FDI volume, with the investment primarily focused on retailing, followed by real estate, transport and communications, as well as the finance and banking sectors. FDI growth rates declined significantly in 2009 due to the financial crisis influence and reached only USD37 billion in Russia with very strong positions of the Moscow region. The improving economic situation encouraged more inflows in 2010, to USD41 billion. In 2011 FDI in Russia is expected to reach USD40 bn.

Due to current globally growing risks and approach of presidential elections Fitch rating agency revised its outlook for Moscow's long-term and foreign currency rating to stable in 2011. Standard & Poor's Rating Agency confirmed Moscow's long-term and foreign credit rating BBB and also retained its stable forecast.

5.3 Commercial Real Estate Investment Market

Expectations for the global economy continue to be gloomy, with Europe being the main focus of concern. The most notable exception to recent trends has been the US, where a good employment data has been published. Overall, the current slowdown is predicted to be much milder than 2008-09 recession. IHS Global Insight predicts global GDP growth at 2.7% in 2012, down from 3% last year. Nevertheless, uncertainty remains pronounced and risks will be on the downside of the current view as long as the Eurozone debt crisis exists. Recent credit downgrades for a number of economies, including France, only add to the problem. Moreover, European banking sector is also feeling the strain. Interbank rates have risen to post-Lehman's highs as investors withdraw and the risk of another credit crunch looms.

The most obvious obstacle for Russian economy is the ongoing sovereign debt crisis in Europe, which is preventing growth by depressing exports and investment flows. Although IHS Global Insight decreased Russia's GDP forecast by 20 BPS, to 3.7% in 2012, Russian economy still looks healthier compared to some other countries and is better positioned to withstand the shock than it was in 2008.

Graph 8: Real GDP growth: International comparison, YoY

According to Rosstat preliminary estimate, Russian GDP expanded 4.3% YoY in 2011 vs. 4.0% in 2010. The pace of industrial production growth moderated to 2.5% in December, posting annual growth of 4.7% YoY in 2011 compared to recovery of 2010 with 8.2% growth. Recent upward performance of fixed investments and construction sectors, which is expected to continue, will add up to 2012 economy growth.

Graph 9: Construction and fixed investments growth

Consumer sector continue to be the major driver of Russia's economic growth in 2011, with retail sales being up 7.2% YoY in 2011. Consumer demand will grow further after the government increase wages and pensions in the

public sector and the military. Moreover, recovered consumer lending and inflation decline will provide support to retail sales.

Graph 10: Consumer loans issued in Russia

In 2011 Russia made a significant step in WTO accession and tightening integration within the CIS. WTO accession is to be completed by mid-2012, that in longer term spurs to structural reforms, vital for the Russian economy, and FDI growth. Customs Union of Russia, Belarus and Kazakhstan eliminated their customs borders. Moreover, on the way to the Eurasian Union, members agreed to create the Common Economic Area, aimed at freedom of labour, capital, and goods movement, beneficial for Russia's economic growth.

Investment volume into real estate was record high in Russia, with the total volume of closed deals up 73% YoY in 2011, to USD8.4 bn. Commercial real estate investments doubled in 2011 vs 2010, to USD8.3 bn. We expect slightly lower real estate investment volume this year, at USD6.5 bn. Anyway, it will be higher than pre-crisis annual volumes.

Graph 11: Investment volume dynamics, USD bn*

** Investment deals, excluding corporate acquisitions, land purchases, JVs, direct residential sales to end-users*

Last year in Russia was marked by the real closures of deals that included foreign capital, with the latter accounting for 41% of the total 2011 volume, compared with 14% in 2010. We saw increased activity of international real estate investment funds on the Russian market. For example, Morgan Stanley real estate investment fund has agreed to acquire the largest shopping mall in St. Petersburg. US-based Hines Global REIT acquired Gogolevsky BC in Moscow. Jensen Group purchased Nevsky Passage, one of the oldest shopping malls in St. Petersburg.

Graph 12: Investment by deal size

Source: Jones Lang LaSalle

At the same time, local investors accounted for 58% of the total 2011 investment volume. We expect Russian investors to take a leading role on the market in 2012, while foreign investors' activity will be determined by global economic performance and political situation in Russia. In uncertain environment investors become more risk averse and suspend investing in more volatile markets while staying in local markets.

Graph 13: Investment by investor origin

Source: Jones Lang LaSalle

Sector wise, investments were bilaterally diversified in 2011. Retail and office segments attracted the bulk of investments – 40% of 2011 total investment volume each. At the same time, several large investment deals were closed in warehouse and hotel sectors to result at 5.4% and 9.7% shares respectively. For example, investment fund VTBC-Ashmore Real Estate Partners I has acquired a warehouse complex on the 8th of March Street in Moscow. Verna Capital bought Ritz Carlton Hotel in the centre of Russian capital. Moscow city authorities have sold at auction the National Hotel to Smart Finance Group, acting in the interests of businessman Mikhail Gutseryev.

Graph 14: Investment by sector

Source: Jones Lang LaSalle

Investors are still mostly focused on prime standing assets, nevertheless with the increased availability of financing; more investments are being directed to development projects. The share of development projects increased significantly in Q2 to 26% of all completed deals from 12% in Q1. We expect interest in development assets to remain elevated, as the availability of construction financing continues to increase and due to the limited number of standing assets available for sale. Deal size increased in 2011 compared to 2010, with 32% of transactions' number were over USD100 mn vs 23% in 2010.

Graph 15: Investment breakdown by type

Source: Jones Lang LaSalle

Table 7 : Key CRE investment indicators

	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Moscow prime yields, %				
Office	9.0	9.0	9.0	9.0
Retail	9.5	9.0	9.0	9.0
Warehouse	11.0	11.0	11.0	11.0
St. Petersburg prime yields, %				
Office	11.0	10.0	10.0	10.0
Retail	11.5	10.0	10.0	10.0
Warehouse	13.5	13.5	13.5	13.5
Equity market growth, %				
RTS Index	15.5	-8.3	-29.7	3.0
VTB Capital Real Estate Index	4.1	-6.0	-39.5	-11.2

Source: CBR, Bloomberg, RTS, Renaissance Capital, Jones Lang LaSalle

Market liquidity

Overall, due to globally growing risks and approach of presidential elections country risks have increased in toward end-2011, with Russia's five-year CDS spread increased to 278 from below 200 in end-October.

During the last 4 months cost of bank financing has increased. The average rouble corporate lending rate for short-term facilities (up to 1 year) has increased to 8.8%, and the US dollar rate – to 6.1% in November 2011.

Nevertheless, Russian banks, predominantly Sberbank, continue to provide financing and extend maturity of existing debt facilities on promising under development projects. For example, Sberbank has opened a USD 394 mn credit line to ZAO International Center of Development to build a 193,000 sq m multifunctional complex in Moscow. International banks continue to provide senior debt finance for prime existing projects. Raven Russia has refinanced its two loans, extending a debt facility with Aareal bank and closing a USD83 mn refinance deal with Unicredit Bank for its Noginsk project. Raiffesenbank opened a USD55 mn credit line to Immofinanz Group to refinance its Fifth Avenue Shopping Mall. Moscow mixed-use center Prazdnik has attracted a USD30 mn seven-year refinance loan. And we are aware of several ongoing refinancing deals with the loan size of more than USD600 mn.

Despite current uncertain market conditions several Russian developers announced return to the idea of holding IPO in 2012, that were canceled due to the crisis in 2008. For example, Snegiri Development announced plans to place up to 25 pct of its shares on London Stock Exchange this year. St. Petersburg-based construction company LEK resumed IPO plans to raise enough money necessary to repay its debt to banks, starting preparation with changing its name to 'Company L1'. O1 Properties demonstrated remarkably high investment activity on Russian real estate market in 2011, continuing adding quality real estate assets to its portfolio as part of its strategy to raise

its value prior to intended IPO in 2012. Though developers will take final decision this year after assessment of market conditions as due to the unstable economic situation their plans may not be realized again.

Table 8: Senior debt terms for Moscow projects in USD

	Before crisis	Crisis	After crisis
Lending rate, %	LIBOR + (3-5 ppts)	LIBOR + (10-12 ppts)	LIBOR + (7+ ppts)
LTV, %	up to 75	up to 50	up to 65
Loan size	> USD100 mn	< USD 50 mn	> USD100 mn

5.4 Retail Market Overview

5.4.1 Moscow Retail Market Overview

Supply

Only two shopping centres were opened in Moscow in 2011 – AFIMALL City (114,000 sq m GLA) and Severnoe Siyanie (12,250 sq m GLA). No new shopping centres opened in Moscow in Q4 2011. Thus existing shopping centres are in high demand and get rapidly populated with retailers. A number of shopping centres are planned to enter the market in 2012: Kaleidoscop (35,000 sq m GLA), GoodZone (70,000 sq m GLA), Parus (17,150 sq m GLA), MTs in Belyaev (12,400 sq m GLA), Tashir projects in Maryina Roscha (40,000 sq m GLA) and on Leninskiy Pr. (30,000 sq m GLA), second phase of Otrada (70,000 sq m GLA) and VITTE Mall (23,000 sq m GLA). We do not exclude the possibility of delivery delay for some projects.

In total 16 new shopping centres were delivered in Russia in Q4 2011. Only 13% of new Russian stock is being developed in Moscow, 12% in Moscow Region, and 15% in St. Petersburg, others are being constructed in regional cities (60%). Moscow Region and cities with population less than 1m inhabitants are the most developing markets, with over 71% of the shopping centres delivered there in Q4 2011. This trend will spread in the next two years. We expect about 53% of the new supply to open in Moscow Region and small regional cities.

Developers continue to announce construction of new-format malls. A number of retail parks and outlet centres are planned for delivery over the next few years and some of them will open in 2012. The choice of retail concepts may be explained by consumer behavior unlike that found in Moscow and personal incomes found in smaller cities. As people are still renovating their apartments or construct their houses, DIY-stores are in high demand there

Demand

Consumer sector continues to be the major driver of Russia's economic growth, with retail sales up 7.2% YoY in 2011 compared to 6.3% YoY in 2010. Although according to Rosstat, real income growth moderated to 0.8% YoY and real wages – to 3.5% YoY in 2011 from 5.1% and 5.2% in 2010 respectively, we expect consumer demand to grow further after the government increases wages and pensions in the public sector and the military. Moreover, recovered consumer lending and declining inflation will provide support to retail sales.

The Russian retail market remains very attractive for foreign retailers, over 20 brands entered the market in 2011 and at least 8 retailers announced their plans to enter in 2012. While major franchise holders (LVB, JamilCo Group, Moneks Trading, BNS Group) continued expanding their portfolios, only Lancel and Chili's Grill & Bar opened its own points.

Retailers already operating in Russia, both domestic and foreign, continue to expand in Moscow and regional cities (see table).

Table 9. Retailer expansion plans

Retailer	Plans
Grocery	
Lenta	build 10 hypermarkets in 2012
Magnit	acquire Tambov Pyatachok grocery chain
O'key	launch 13 stores in 2012
Auchan	open 5 hypermarkets in 2012
X5 Retail Group	acquire Kirov Ekonomnaya Semya chain
Azbuka Vkusa	expand outside Moscow Region
BILLA	purchase Citystore grocery chain
DIY	
Hoff	open a store in St. Petersburg
K-rauta	launch 10 new stores by 2015
IKEA	open 3 separate stores in Moscow Region
Cash & Carry	
Metro Group	open 2 new Metro C&C stores and sell Real grocery chain
Gallery	
Adidas	expand up to 1,000 stores by 2015
Wrangler	open 15 outlets in Moscow and St. Petersburg
Lee	
Coffeeshop	expand the chain up to 275 units by 2015
Detskiy Mir	double the number of stores by 2015
Subway	open 200 stores in 2012

Newcomers 2011	Plan to enter 2012
Berghaus, Diesel, DKNY Jeans, DKNY, Jaeger, Yves Salomon, American Eagle Outfitters, Victoria's Secret, La Senza, Jimmy Choo, Joseph, Dorothy Perkins, Firetrap, OVS Industry, Wendy's, Tally Weijl, Nordsee, Pinkberry, Banana Republic	Debenhams, Noodle House, Seattle's Best Coffee, Muzz Buzz, Brisket Express, Krispy Kreme, Peek & Cloppenburg, Abercrombie & Fitch

Market balance

Prime rental rates and leasing terms in Moscow remained stable in 2011. Turnover rent is offered to almost all retailers, with a minimum fixed rent specified in lease agreements. Anchor tenants are often allowed to fix the maximum level of rents. While growth in fixed rents has not been recorded, turnover rents have increased in some instances due to increased sales. Retailers questioned during our survey conducted in December 2011 reported a sales increase of 10-40% (see chart below).

Graph 16. Retailer survey results: Annual increase of overall sales in Russia compared to previous year by profile

Table 10. Moscow shopping centre rents by profile, Q4 2011 (USD/sq m/year)

Profile	Area (sqm)	Turnover rent	Rents
Hypermarket	>5,000	1-3%	120-300
White and brown	>2,500	2-3%	220-300
	<2,500	5-6%	280-380
Sporting goods	>3,000	5-7%	180-250
	<3,000		220-600
Cinema	>3,000	8-10%	180-250
Entertainment	1,500-7,000	4-6%	120-150
Perfume and cosmetics	300-500	10-12%	1,300-2,000
	<300		1,600-2,400
Goods for children	<300	10-12%	600-1,500
	>800	5-8%	350-600
DIY	8,000-15,000	3-4%	160-250
Food courts	40-90	4-10%	1,000-2,500
Restaurants	250-600	10%	500-800
	40-200	10-12%	900-4,000
Fashion and apparel	200-1,000	10-12%	500-1,000
	>1,000	5-8%	500-900

As a result of no retail space delivered to the market, the vacancy rate remained unchanged in Q4 2011 at 4% in Moscow.

Graph 17. Moscow market balance**Out look**

- A wide range of brands were delivered to the market in 2011. Many retailers intend to enter the Russian market in 2012 and coming years.
- Regional development gains a leading position in comparison to Moscow and St. Petersburg markets.
- The largest foreign and domestic retailers consider capturing more non-saturated markets.
- Shopping centres with new formats are planned to open.
- As not many shopping centres are planned to be delivered in Moscow this year, we expect the vacancy rate to decline further, to about 3% by end-2012.
- Uncertainty with construction and low availability of quality retail premises in Moscow will push rents up, we expect about 5% prime rental rate growth in 2012 in Moscow.

5.4.2 Classification of Shopping Centres

Retail centres are divided into the following major categories:

- Convenience centres
- Neighbourhood centres
- Community centres
- Super Community Centres
- Regional Centres
- Super Regional Centres, and
- Specialised Centres

In all cases the type of retail centre and its specialization is defined by the character of its tenants and the size of its catchment area. The development of architectural and planning solutions, as well as brokerage (leasing of retail centre premises) are based on the primary concept of a shopping centre.

Convenience Centre

Convenience centres: retailers of consumer goods and services (such as shoe repair, laundry etc). A convenience centre is made up of at least three shops with a GLA between 1,500 and 3,000m². In most cases the main operator (anchor) is a mini-market. The catchment area is a zone within 5-10 minutes walking distance of the centre, the number of potential customers can be up to 10,000 people. Former Soviet Universam (Univermag) stores, as well as large food and manufactured goods stores, which lease out part of their main trading area to tenants (pharmacies, laundromat/dry-cleaning, video shops, household goods, photo shops, etc.) are an example of such centres.

Neighbourhood Centre

Neighbourhood retail centres sell everyday consumer goods (foods, medicine, household goods, etc.) and services (laundry, dry-cleaners, hair-dressers, shoe repairs, and key-makers) to satisfy the daily needs of the neighbourhood's residents. The anchor tenant is usually a supermarket and the mini-anchor may be a pharmacy or household goods store. Secondary tenants are clothing and shoe stores, accessories stores, perfumery stores, sporting goods outlets, etc. The total leasable area of such shopping centres normally comprises 5,000 – 6,000m², but in practice it may vary from 3,000 to 10,000m². The initial catchment area of a neighbourhood retail centre is usually represented by 3,000 to 40,000 customers living within 5-10 minutes driving distance (private car or public transport).

Community Centre

Community shopping centres offer a wide range of goods and services with a large selection of "soft" goods (men's, women's, children's and sports clothing) and "hard" goods (metal goods, electric devices, household items). This category of shopping centre usually stocks a wider range of goods with a broader price range compared to a neighbourhood centre. Many centres are usually built around small department stores, discount department stores, large pharmacies or variety stores engaged in retail of various goods often with discounted prices. Although a community centre does not have a store with a full product line, it might have strong, specialized shops. The typical retail area is approximately 14,000m², but may vary from 9,500 to 47,000m². The initial catchment area of a community centre is located within 10-20 minute driving distance (private or public transport) and usually consists of approximately 40,000 to 150,000 residents.

Super Community Centre

Super community centres generally have a profile similar to that of a community centre but have an area of over 23,000m². In exceptional cases their area may reach 90,000m². The community shopping centres are the most complex category of shopping centres with regard to estimating size and service area.

Regional Centre

Regional centres provide customers with a broad variety of goods, clothing, furniture and household goods, and various types of services as well as leisure and entertainment facilities. They are built around one or two full line variety stores normally taking up an area of no less than 5,000m². Normally a leasable area of this shopping centre category is approximately 45,000m². However, in practice they can range from 23,000 to 85,000m². Regional centres offer services that are typical for a business district but provide a more inferior range of services than a super regional centre. The catchment area for a regional shopping centre includes all areas within a 30-40 minute travel time with a customer base usually exceeding 150,000 people.

Super Regional Centre

A super regional centre provides various types of goods, clothes, furniture, accessories, etc. as well as leisure and entertainment services. Such shopping centres usually have a total area of not less than 93,000m². Often, the area of these centres varies from 50,000m² to 150,000m². The catchment area for a super regional centre includes all areas within 1.5 hours' travel time with a customer base usually exceeding 300,000 customers.

Specialised Centre

There are many shopping centres that could be called "specialized" and can be defined as a sub-type of other more traditional types of shopping centres. Specialized centres are shopping centres that differ significantly from other types of shopping centres or do not meet the requirements of the above categories. For example, a neighbourhood centre could be called a specialized neighbourhood centre if it has a group of specialized stores (grocery, butcher, organic grocery, liquor store) that can substitute for a supermarket. A regional centre that has a large fitness centre as an anchor with additional sports shops, life style shops and a tourism segment would have the status of a specialized centre. Specialized centres can be divided into the following groups: Entertainment, Retail and Entertainment, Discount, Home improvement, Megamall and Lifestyle.

Shopping Centre Characteristics

A Shopping Centre contains a group of retail enterprises within one architectural complex, developed as a unified, specially planned scheme on one site, owned and managed as a single unit. The size and type of stores in the centre correspond to its catchment area and the centre is equipped with sufficient parking lots.

The following features are essential to the development of Shopping Centres and differentiate them from other retail projects:

- A common building or building complex, providing space for retail operators and managed as a single site;
- Easy accessibility from the catchment area with convenient ingress/egress for transport and pedestrian flows;
- Sufficient parking availability corresponding to the demand created by the retail project. The parking must be conveniently located relative to the main entrance and the entrances to separate stores;
- The retail centre must have a concealed and easily accessible loading area;
- Attractive site improvements (landscaping, lighting, billboards, etc.) in order to create an attractive and safe environment for customers to shop and relax.

- An efficient tenant mix ensuring harmonious coexistence for the individual stores and the largest possible selection of goods and services;
- Attractive and well configured surroundings contributing to the retail environment.
- The retail centre concept must reflect the following:
 - Customer target groups (customer profile);
 - Type of retail centre.

5.4.3 Local Retail Market

The existing supply of high-quality shopping centres is not well distributed throughout the administrative districts of Moscow. Thus, in the east of the city an acute shortage of high-quality shopping space still exists, while the north, the west, the south and the centre of Moscow have a relatively comparable supply of high-quality shopping space.

Despite the fact that the MIBC 'Moscow-City' is located within the territory of the Central Administrative District, we also need to take into account the supply and demand in the western district of the city, because of the large catchment area of the project.

We assume the future growth of supply in the surrounding districts will continue the tendency to create a retail corridor along Kutuzovsky Prospect and in the neighbouring districts, a lot of large projects have entered the market or will enter the market in the near future, such as retail premises in 'Moscow-City', Evropeisky retail centre (63,000m²), Vremena Goda retail centre (52,000m²), Metropolis (80,000m²) and also a lot of small retail centres.

Below is a table with the main development projects within 'Moscow-City' that we consider will be competitive to the subject property in the near future.

Table 11. Retail Competition within 'Moscow-City'

Project	Retail segment, m ²	Estimated date of completion	Concept of the retail segment
AFIMALL City	107,000	Q1 2011	Hypermarket, cinema, strong set of anchors, large retail gallery for different classes of customers, large number of restaurants and cafes.
Federation Complex	38,000	2013	3 retail levels: galleries, shops, restaurant, cafe
Naberezhnaya Tower	10,800	Q4 2007	Support retail
Capital City I, II	24,000	Q4 2008, Q3 2009	Fitness centre, support retail, restaurants, multiplex
Eurasia Tower	27,500	2013	Support retail, supermarket, casino, restaurants
Evolution Tower	23,000	Q3 2013	Retail gallery
Mercury City Tower	5,200	2013	Support retail
Imperia Tower	4,600	Q4 2011	Retail gallery, restaurants, cafes, night club
Moscow-City Transport Terminal	2,750	Q4 2013	Support retail
Northern Tower	500	Q3 2008	Support retail, restaurants, fitness centre
Exposition and business complex	5,000	2015	Support retail, café, services
Part of Expocenter	50,000	2015	Support retail, café, services

Source: Jones Lang LaSalle

In the case of the scheduled completion of all the announced projects, the total area of retail premises of MIBC 'Moscow-City' will be more than 300,000m² by the end of 2015. We would again note however that the financial crisis has caused many projects to be cancelled or delayed, the true extent of the delays and which projects will be completed is not clear at present.

However, the main function of the retail stock in 'Moscow-City' projects is as support retail for office premises, restaurants and cafes; the final concept and tenant's profile for most of the development projects have not been determined yet. Most of the projects including retail premises are oriented towards the internal market of 'Moscow-City', for those who work within the complex and will not therefore represent strong competition for the centre.

The AFI Mall shopping centre and its concept and target audience will significantly differ from its major competitors within the MIBC 'Moscow-City', as it will be the largest retail project within the MIBC 'Moscow-City' (more than 100,000m² area).

The table below contains detailed information concerning the main retail centres and development projects outside "Moscow-City", which we consider to be competitive to the subject property.

Table 12: Retail Competition around the 'Moscow-City'

Name (Address)	GBA, m2	Retail GLA, m2	Year of completion	Concept/ Anchors
Direct competitors				
1. Evropeysky (Kievskaya sq., 2)	180,000	63,000	2006	Regional centre / Perekrestok, Formula Kino
2. Lotte Plaza (Novinskiy blvd., 8)	85,000	22,700	2007	Specialty centre / Azbuka Vkusa, Mercury
3. Vremena Goda (Kutuzovskiy av., 48)	62,000	52,000	2007	Community centre / Globus Gourme
4. Smolensky Passage (Smolenskaya sq., 3)	63,769	22,389	1998	Community centre / Mercury, World Class
5. Zvenigorodskiy (Zvenigorodskoe highway / 3rd Silikatny pass.)	160,000	140,000	2014	Super regional centre
6. Filion (Bagrationovskiy pass., 5-6)	128,000	55,000	2009	Regional centre/ Carrefour, Detskiy Mir, Cinema star, Decathlon
Indirect competitors				
7. Festival (Michurinskiy av., 3)	61,577	30,160	2005	Community centre/ Sedmoy continent, M.video, Formula Kino, Crazy Park
8. Zvenigorodsky (3d Silikatny Proezd)	160,000	140,000	2014	Regional centre
9. Aviapark (Leningradskiy av., 27)	290,000	240,000	2014	Super regional centre/ Hypermarket – 31,000 sq m; W&B – 21,000 sq m; DIY – 16,000 sq m; cinema – 10,000 sq m, sporting goods – 10,000 sq m
10. Metropolis (Leningradskoe highway, 16)	325,000	80,000	2009	Super regional centre/Karusel, M.video, Snezhnaya Koroleva, Kinostar Miami, Marks&Spencer and Sportmaster
11. Gagarinsky (Vavilova Str. 3)	200,000	70,000	2010	Regional centre/Auchan, Snezhnaya Koroleva
12. RIO, aka Tryapka (Leningradskoe highway, 23)	22,000	15,400	2009	Community centre

Name (Address)	GBA, m2	Retail GLA, m2	Year of completion	Concept/ Anchors
13. River Mall (Avtozavodskaya Str. 16-18)	260,000	85,000	2012	Regional Centre

The main existing competitors for the Central Core retail centre are shopping centres “Vremena Goda” and “Evropeysky”. The “Smolensky Passazh” may also be considered as a strong competitor. In the secondary catchment areas the strongest existing competitors are ‘Metropolis’, ‘Festival’ and ‘Gagarinskiy’ but there are also a few proposed competitors, such as ‘Aviapark’.

Nevertheless the location of the subject property and its good accessibility by public transport will place the centre well in terms of it's competitors.

5.5 Office Market Overview

Supply

Approximately 166,000 sq m of new space was added to the office market in Q4 2011, bringing the total for the Moscow office market to over 13.26m sq m, including Classes A, B+, B-. Nearly 60% of all the newly completed offices that entered the market in Q4 were Class A, a notable indication that quality of workspace continues to become a priority for many occupiers. This new addition of quality space was centered around offices entering the market at the city's core. We observed:

- Imperia Tower, in Moscow City Financial District (70,000 sq m)
- Legion II Phase II, in Zone 1⁵(19,400 sq m)
- Moscow Hotel (office component), in Zone 1 (9,000 sq m)

Graph 18: Take up and Completion dynamics

Altogether for 2011, new office market completions only amounted to little more than 600,000 sq m of space. This figure, when compared year-on-year, was significantly lower (34%) than in 2010.

Since the crisis office market construction has been measurably reactivated and many of the construction projects that had been previously frozen, have started to enter the market. Looking ahead, approximately 2.7m sq m are expected to be completed and delivered to the market between 2012-2014. Again, supporting the drive for higher quality office space, we note that of this 2.7m sq m, nearly half (41%) will be Class A space and 20% of this pipeline will appear in the city's core area, the Central Business District (CBD).

Notable office spaces expected to be delivered to the market in 2012 include:

- Mercury City, in Moscow City Financial District (87,600 sq m)
- ALCON, in Zone 3 (70,500 sq m)
- SkyLight, in Zone 3 (57,300 sq m)
- Aquamarine 3, in Zone 1 (52,400 sq m)
- Lighthouse, in Zone 1 (22,500 sq m)

⁵ Zone 1 - inside the Garden Ring; Zone 2 - between the Garden Ring and Third Transport Ring; Zone 3 - between the Third Transport Ring and MKAD

Demand

Quality and location are becoming increasingly decisive factors for many occupiers on the Moscow office market. While these have always been critical issues for new tenants, recent measurements of office market dynamics demonstrate a clear trend of these factors taking an even more prominent role. Nearly half of the office market transactions⁶ recorded in Q4 of 2011 were classified as Class A office space.

Leasing activity was split fairly evenly between international and domestic companies, with international companies prevailing (51%) over domestic companies (49%). A further breakdown of transactions in Q4 reveals that 21 transactions were in the range of 1,500-4,000 sq m; 8 were between 4,000-9,000 sq m; and 3 deals were in the >25,000 sq m range. Transactions have been similarly broken down in terms of type with nearly 69% accounted for by new leases, 9% by renewals and sale by only 5%. Other 17% include sublease, renegotiations, expansion.

A strong upswing in demand was measured toward the end of 2011, with Q4 take-up reaching 490,000 sq m, pushing the annual total for take up to 1.77m sq m (compared to 1.4m sq m in 2010). The drivers for much of the leasing activity in Q4 were spread across three sectors, with the most prominent being IT companies accounting for 33% (e.g. Mail.ru). The manufacturing sector accounted for almost 20% (e.g. Schneider Electric); 'business services' companies (e.g. Strategy Partners) accounted for about 11%. Telecommunication (e.g. Tele2) and construction (e.g. ARMO) companies took much smaller shares recording less than 6% and 5.5%, respectively.

Graph 19: Deals breakdown by business sectors

The decentralization of the Moscow office market became even more apparent in 2011, evidenced by significant take-up recorded in Zone 3. Deals in Zone 3 included office buildings such as Olympia Park, Metropolis and SkyLight, Krytaskye Hills and Dvintsev, Nagatino i-Land and Danilovsky Fort. When taken together, the trend of decentralization and the existing construction restrictions recently implemented in the city center (CBD), it appears that the financial district, Moscow City (only 6 km from the Kremlin Zone) will continue to rise as a favored destination for those occupiers who require or prefer to be more centrally located, but not in the CBD.

Market balance / Rents

The overall vacancy rate on the Moscow office market in Q4 2011 slightly decreased compared to Q3 and measured 16.3%, with vacancy declining even further to 12.7% in the CBD. Of the 2.2m sq m of available office space on the market, approximately 20% is represented by Class A quality office space.

Graph 20: Vacancy rate benchmarks, Q4 2011

Source: Jones Lang LaSalle

In the city center's Kremlin Zone, one of the most prestigious areas of the city, available Class A space only amounts to 36,000 sq m, but represents a vacancy rate (for this class in this zone) of 19.6%. While this would seem to be inordinately high for such a sought after location/Class, when put in context, the Kremlin Zone only has approximately 186,000 sq m of office space that is classified as Class A office stock.

As to be expected, more than half of the overall available office space in Moscow is located outside the more central areas, in Zone 3. More importantly, nearly 80% of overall availability is represented by Class B office space.

⁶ included deals known to the Moscow Research Forum

On a quarterly basis, office rents remained stable in Q4 2011, with prime base rents remaining at a level of USD1,000-1,200 sq m/year (excluding operational expenses and VAT). Nevertheless, prime rents increased 33% YoY. Class A base rents amounted to USD600-850 sq m/year; Class B+ base rents amounted to USD400-600 sq m/year; and Class B- base rents were USD300-400 sq m/year. In 2012, we are expecting rents to increase, albeit gradually, across all Classes (A, B+, B-).

Graph 21: Rent Dynamics

Incentives are largely the same, with a 3-6 month rent free period (typically to cover tenant fit-out works) on a standard 5-7 year lease length.

Conclusions

- The recovery of the Moscow office market continued in Q4 2011.
- At the end of Q4 2011 the modern office stock in Moscow exceeded 13.26m sq m.
- New office market completions only amounted to little more than 600,000 sq m of space. This figure, when compared year-on-year, was significantly lower (34%) than in 2010.
- Russian business services firms and international manufacturing companies were the leaders in take-up activity in H2 2011.
- Vacancy rate increased and achieved the level of 16.3% at the end of 2011. Despite the VR growth prime rents continue increasing due to the limited volume of high quality space available for immediate occupation.
- Prime rents reached USD 1,000-1,200 per sq m per year. Prime rents increased 33% YoY. Class A base rents amounted to USD600-850 sq m/year; Class B+ base rents amounted to USD400-600 sq m/year; and Class B- base rents were USD300-400 sq m/year. In 2012, we are expecting rents to increase, albeit gradually, across all Classes (A, B+, B-).

5.5.1 Local Office Market

Supply

The major competition for the subject property will come from other office projects within 'Moscow-City' as well as the business centres located in the most prestigious parts of Moscow.

The majority of 'Moscow-City' projects are scheduled to be delivered to the market by 2013. Despite the delays in completions caused by the crisis, the total office stock of 'Moscow-City' projects may reach about 1.4 million sq m by 2013 (if all the projects are delivered to the market within the announced schedules). As we have stated elsewhere in this report, the crisis has caused many projects to be cancelled or delayed and therefore the true extent of the future competition is unclear, it is however the case that a number of projects will be completed and vacancy rates are rising which will create substantial competition.

Below, the map of 'Moscow-City' projects and the quantity of offices in them is presented:

The peculiarity of 'Moscow-City' is the predominance of high-rise buildings. General information about the main 'Moscow-City' projects and their marketing data is stated below in the section 'Rental value and tenant demand'. However, it should be noted that some of the projects are at the very early stage of planning, so their development concept and areas may change significantly.

Taking into account the development schedule of Moscow-City projects that is available to us, we have concluded that the major stock is supposed to be delivered by 2013 and includes such projects as Moscow-City Transport

Terminal, Imperia Tower, Eurasia, Central Core, Federation Tower Vostok, Mercury City. However, considering the current market situation, construction may be delayed.

The projects that are being actively marketed and offered for lease as at the valuation date include Naberezhnaya Tower III, Federation Tower, Capital City, Imperia Tower and Mercury City.

Demand

The current tenants in the completed Moscow-City projects include reputable Russian and International companies. Over the recent past there was a significant lack of good quality office space and therefore many offices were leased at the construction stage and rents were consistently rising. The largest office deal that is known to us is the purchase of about 64,000m² by Vneshtorgbank in the Federation Tower building. Other large-size deals include KPMG (20,000m²), Renaissance Capital (15,800 m²), IBM (9,500 m²).

Based on the experience of Jones Lang LaSalle Strategic Consulting Department, the following important factors need to be taken into account.

'Moscow-City' is considered by Russian companies as a quality business district for the future, but currently it has the image of an everlasting construction site and is therefore not perceived as a high-quality business district. Construction activity will continue at the 'Moscow-City' Project for many years to come. The attitude of international companies toward 'Moscow-City' in general is very positive and it is perceived as a high quality business district for the future too.

The transport accessibility and car parking shortage of 'Moscow-City' is a big concern for both Russian and International companies.

The following characteristic are important and impact the tenants' office choice (in particular, the choice of international companies):

- Location. Overall companies (mainly international) would prefer to stay within or in the vicinity of the Garden Ring. The major locations currently considered are Paveletskaya, Tverskaya and Belorusskaya. However some consider Moscow-City as a possible future office destination for their companies.
- Public transport accessibility (maximum 10 minutes walking distance to the Metro) This is a major priority, followed by car accessibility. Convenience of accessibility (i.e. access to several Metro lines and good connections) is a key decision factor which a number of companies have conducted employee surveys to identify the location with the shortest commute for the majority of employees. Capacity of parking spaces is of less importance to some companies, as they offer parking spots only to Senior Management / Executives. Parking provisions client/ guest are considered more important.
- Amenities. All international companies place strong importance on the availability of amenities such as restaurants, shops, gym, café - either located in the same building or within a short walking distance. The convenience of the workplace represents a key issue for international companies in order to maintain a high level of staff retention.
- Service - need for an international quality management company for the building.
- Layout - Preferred floor-plate sizes should be as big as possible, in the range of 2,000 – 2,500m², but ideally no smaller than 2,000m². Currently this requirement is being modified as many companies are pursuing a cost-cutting policy, optimizing their staff and the areas leased.
- Building specifications:
 - Requirement for net floor height of most companies ranges between a minimum of 2.75m to 3.00m.

- Most companies require a separate lift for delivery as well as separate receptions for delivery and clients/ visitors in order to avoid interference of visitors/ clients with daily delivery flows.
- Provisions for raised floors should be prepared in order to avoid tenants having to build small ramps at all intersections with other floor-heights.
- High-level security

5.6 Rental Evidence and Considerations

5.6.1 Retail Accommodation

Rental rates for high-quality shopping centres vary, depending on their location, quality and concept design.

The AFI Mall retail centre is located at the intersection of the Central and Western administrative districts within the territory of MIBC 'Moscow-City'. The location of the subject property has a high development potential and will cover a large catchment area.

It is a super-regional retail centre, providing customers with a broad variety of goods, clothing, furniture, household goods and various types of services, as well as leisure and entertainment facilities. It also offers services that are typical for business districts but will provide a smaller range of services than a super community centre. The catchment area for the AFI Mall retail centre includes all areas within a distance of 30-40 minutes by transport.

Future competition for the AFI Mall retail centre within the "Moscow-City" will not be significant as the majority of the premises in the surrounding buildings will be used as offices. Moreover, neighbouring business centres will provide additional consumers to the proposed shopping centre from their employees. The main existing competitors for the AFI Mall retail centre are retail centres "Smolensky Passage", "Evropeysky" and "Metropolis".

Below we show a brief description of the comparable projects in Moscow in terms of quality and the level of rental rates.

Table 13

Picture	Description
	<p>Europeysky Location: Kievskaya Sq., 2 Developer: "Kievskaya Ploschad" CJSC Opening: November 2006 <i>Concept details:</i> Regional scale retail centre</p> <ul style="list-style-type: none"> • GBA: ~ 180,000 m² • GLA: ~ 63,000 m² (retail) • Parking – 2,500 parking spaces on 5th-6th floors <p>One of the highest-quality shopping centres in the central part of Moscow providing a large selection of fashion and shoes to middle class customers. <i>Tenants:</i> Anchors: Perekrestok, "Europa Cinema" (Formula Kino), Royal Rixos SPA Brands: Zara, Marks & Spencer, Mexx, Mango, Promod, Yudashkin Jeans, Chevignon, Game, Orsay, Monton, Olsen, Catherina Leman, Oltre, Bershka, Tatoon, Motivi, Massimo Sela, Oasis, Monsoon, Pilgrim, Zimaletto, Karen Millen, Tara Jarmon, Lauren Vidal, Next, Naf Naf, Marella, Guess, Calvin Klein Jeans, Levi's, Benetton, Ego, 4YOU, Savage, FINN Flare, Colins, Lady & Gentleman City, Meucci, Egoist, Dormeuil, Tommi Hilfiger, Lacoste, Marc O'Polo, Ecco, Alba, Fabi, Chester, Geox, Baldinini, Adidas, Nike, Reabok, Puma, Camel Active and other Entertainment: Cinema, Ice Rink, Food Court, FEC <i>Rental Details:</i></p> <ul style="list-style-type: none"> • base retail rent rate: \$300 – \$6,000 per m² per year, (average \$3,000) • service charges (OPEX): n/a
	<p>Atrium Location: Zemlyanoy Val, 33 Developer: Engeocom Opening: May 2002 <i>Concept details:</i> Regional scale retail centre, target - middle class</p> <ul style="list-style-type: none"> • GBA: ~ 94,300 m² (retail)

- GLA: ~ 75,300 m² (retail)
- Parking (underground) – 700 spaces

One of the best shopping centres in the central part of Moscow providing large variety of entertainment and big selection of fashion shops to middle class customers.

Tenants:

Anchors: Zeleny Perekrestok, Karo Film

Brands: Gentlemen, Mango, Adidas, Reebok, Nike, Mexx, Fabi, Ecco, Promod, TJ Collection, Diesel, Motivi, Guess, Karen Millen, Caterina Leman, Olsen, MoDaMo, Men's Merit, Paul & Shark, Kotton, WoolStreet, Betty Barclay, Rich and other

Entertainment: Cinema, Bowling, Playing machines, Casino, FEC

Rental Details:

- base retail rent rate: average ~ \$1,000-\$5,000 / m² p.a. (average \$1,950)
- service charges (OPEX): ~ \$150-180 / m² p.a.

Lotte Plaza

Location: Novy Arbat, 21

Developer: Lotte Group

Opening: September 2007

Concept details: District scale retail centre, upper income level

- GBA: ~ 23,130 m² (retail)
- GLA: ~ 18,130 m² (retail)
- Parking (underground) – 450 spaces

Tenants:

Anchors: Supermarket „Azбуka Vkusa”, Mercury (Prada, YSL, Gucci, D&G, Jimmy Choo, Miu Miu, Mulberry, Balenciaga, Chloe, Baccara), Crocus International (Emanuel Ungaro, Nina Ricci, Sergio Rossi, Plein Sud, Paul Ka, Les Copains, J Lo)

Brands: Zara, Armani, Dunhill, Vertu, Bally, PINKO (Wunderkind), Calvin Klein, Diesel full-line, UOMO Collezione, Cerruti Jeans, Murphy & Nye, Givenchy, Valentino, Anna Molinari, Jenny London, Jitrois, Patric Cox, Lacoste, Apple, Samsung, LG and other

Entertainment: Cafes

Rental Details:

- base retail rent rate: \$1,000-\$5,000 / m² p.a. (average \$1,700 / m² p.a.)
- service charges (OPEX): n/a

Smolensky Passage

Location: Smolenskaya square, 3

Developer: BIN PFK

Concept details: Regional scale retail centre,

- GBA: ~ 63,770 m² (including offices and parking)
- GLA: ~ 22,389 m² (retail)
- Parking (underground) – 450 spaces (both for retail and offices)

Tenants:

Anchors: Zeleny Perekrestok, Mercury (Dolche & Gabbana, Christian Dior, Nina Ricci, Gianfranco Ferre, Giorgio Armani, Millesia, Roberto Cavalli, Hugo Boss, Patek Philippe, Bvlgari, Fendi, Swarovski), World Class Fitness

Brands: Ecco, Dolche Vitta, Davidoff, Fashion Week, Sakura Garden, MANIA, ALBA, Yves Delorme, Good Look, Christ

Entertainment: Food-court, cafes

Rental Details:

- base retail rent rate: average ~ \$1,260 / m² p.a.
- service charges (OPEX): incl. in a base rent

Bagration Bridge

Location: connects Kutuzovsky Av. with Moscow-City

Developer: 'Moscow City' JSC

Opening: 1997

Concept details: Neighbourhood scale shopping centre,

- GBA: 13,750 m²
- GLA: 2,572 m²

Tenants:

Anchors: Kreyzi Ball

Rental Details: base retail rent rate from \$525 / m² p.a. (average - \$1,100 /m² p.a.)

Metropolis

Location: Leningradskoe Highway, 16

Developer: Engeocom

Delivery: Q1 2009

Concept details: Super regional scale retail centre, target - middle class

- GBA: ~ 205,298 m² (including offices and parking)
- GLA: ~ 79,400 m²
- Parking (underground) – 1,410 spaces

One of the most competitive super-regional retail centres in the decentralised part of Moscow. Strong concept and tenant mix. Anchor stores occupy about 55% of the total GLA.

Tenants:

Anchors: Perekrestok, Stockman, Snow Queen, M-Video, Peek&Cloppenburg, Debenhams, Marks&Spencer, Esprit, NewYorker, Detsky Mir, Champion Bowling, Kinostar Deluxe.

Brands: About 250 retail shops of different brands including about 150 of fashion brands.

Entertainment: Cinema, Bowling, FEC, food-court

Rental Details:

- base retail rent rate: retail gallery \$325-3,600 /m² p.a. (average \$1,500 /m² p.a.), anchors - \$170-500 /m² p.a. (average \$300 /m² p.a.).
- service charges (OPEX): ~ \$210 / m² p.a. for retail gallery

Kaluzhsky

Location: Profsoyuznaya str., 61A

Developer: Z-Build

Delivery: Q4 2003

Concept details: shopping centre

- GBA: ~ 29,000 m²
- GLA: ~ 18,100 m²
- Multi-level parking – 800 spaces

Tenants:

Anchors: Perekrestok, Eldorado, Cinema-Park

Brands: L'Etoile, Gerry Weber, Betty Berclay, Louis Feraud, Rosch, DIM, Steilmann, Olsen, VASSA, ECCO, Zara, Marks&Spencer, C&A, Sportmaster

Entertainment: Cinema, game zone, food-court

Rental Details:

- base retail rent rate: \$470-2,500 / m² p.a.
- service charges (OPEX): ~ \$140 / m² p.a.

Zolotoy Babylon

Location: Dekabristov Str. 12

Developer: Wakelin Promotions Limited

Delivery: Q2 2002

Concept details: community shopping centre

- GBA: ~ 38,000 m²
- GLA: ~ 24,700 m²
- Parking (surface) – 800 spaces

Tenants:

Anchors: Karusel, M.video

Brands: O'STIN, Carlo Pazolini, Salamander, TVOE, L'Etoile, ALBA, Carnaby, Sela, WoolStreet, Mascotte, Befree, Domani, Lush, Dolce Vita, TJ Collection, SASCH, OGGI, ECCO, Kenzo, Kroshka-Kartoshka, McDonald's, Sbarro, Rostik's-KFC

Entertainment: Luksor cinema, food-court

Rental Details:

base retail rent rate: \$300 – 6,000 / m² p.a.

5 Avenue

Location: Marshala Biruzova Str. 32

Developer: Torgovy Dom "Na Khodynke"

Delivery: Q4 2004

Concept details: community shopping centre

- GBA: ~ 43,430 m²
- GLA: ~ 17,370 m²
- Parking (surface) – 200 spaces, underground – 600 spaces

Tenants:

Anchors: Perekrestok, Cinema Park

Brands: Profi Sport, Forward, Esprit, MEXX, Bely Veter, City Obuv, GEOX, Glenfield, Glance, Quattro, SASCH, Henderson

Entertainment: Cinema Park

Rental Details:

- base retail rent rate: \$450 – 2,500 / m² p.a.

Galerea Aeroport

Location: Leningradsky Pr. 62A

Developer: Garant-Invest

Delivery: Q2 2003

Concept details: neighbourhood shopping centre

- GBA: ~ 11,809 m²
- GLA: ~ 6,900 m²
- Parking (surface) – 200 spaces

Tenants:

Anchors: Moy Magazin

Brands: Ecco, Carlo Pazolini, Fabi, Salamander, Intimissimi, Calzedonia, Domanim L'Etoile, Starbucks, Optic City, Gipfel, Hallmark, ION, Chester, Tom Klaim, Estel Adoni, Befree, Love Republic, Fabio Gavazzi, OGGI

Entertainment: foodcourt: Mu-Mu, Rostik's KFC, Teremok, Sbarro, Kroshka-Kartoshka

Rental Details:

base retail rent rate: \$800 – 1,700 / m² p.a.

The retail accommodations in other Moscow-City projects comprise almost only support retail premises together with some branded shops. In terms of scale and concept they will not be significant competitors to the subject property.

The retail prospects of the subject property is estimated higher than such projects as Metropolis, Atrium and Vremena Goda. Bagrationovsky Most passage is also less attractive for tenants because of the small size and almost only short-stop sales.

Information regarding rental rates in the competing projects is not widely available in the market. Based on the experience of Jones Lang LaSalle Retail Agency team, using the limited public information about rent rates in the comparable shopping centres and the information about signed-lease agreements and negotiations with prospective tenants, we have made the following assumptions on the rental value of the retail premises located within the subject property.

Table 14

Type of tenant	GLA, sq m	Base rent, \$/sq m/year	Current potential annual income, \$ (100% share)
level 0 (124.6)			
Anchor stores (Fashion)	9,510	591	5,618,575
Mini-anchors	5,632	846	4,765,854
Boutique shops	13,408	2,517	33,746,935
Cafes	386	2,500	966,000
Sub-Total, leased area, level 124.6	28,936	1,558	45,097,364
level 1 (129.7)			
Supermarket	2,364	250	590,900
Anchor stores (Fashion, Parfumery, Household)	8,773	605	5,309,751
Mini-anchors	1,623	1,225	1,987,570
Boutique shops	7,000	2,843	19,901,989
Cafes	587	2,425	1,422,294
Sub-Total, leased area, level 129.7	20,346	1,436	29,212,504
level 2 (136.3)			
Department Store (1st level)	2,227	380	845,147
Anchor stores (Fashion)	4,983	541	2,693,990
Mini-anchors	1,270	1,281	1,626,140
Boutique shops	6,489	2,183	14,166,163
Cafes	30	2,000	59,200
Sub-Total, leased area, level 136.3	14,999	1,293	19,390,639
level 3 (142.45)			
Anchor stores (Kids, Sport Goods, Multimedia, Entert.)	8,186	512	4,189,397
Mini-anchors	1,016	450	457,380
Boutique shops	4,679	1,268	5,935,427
Food-court, cafes	1,338	2,857	3,822,581
Sub-Total, leased area, level 142.45	15,220	946	14,404,786
level 4 (148.6)			
Anchor stores (Multimedia, Sport)	1,862	636	1,183,417
Cinema	6,980	422	2,945,909
Mini anchors	0		0
Boutique shops	496	1,769	877,751
Cafes, restaurants	8,012	907	7,270,451
Sub-Total, leased area, level 148.6	17,351	708	12,277,528
Average base rent for retail	96,852	1,243	120,382,820
Other income			

Winter garden area	3,641	200	1,456,280
Kiosks	951	4,400	2,789,500
Offices	1,115	600	669,000
Storage	2,504	600	795,900
Food court sitting area	1,359	776	130,962
Terrace	700	150	105,000
Other income	10,270	579	5,946,642
Total GLA	107,121	1,179	126,329,462

In calculating effective gross income, we have deducted a stabilised average vacancy loss of 3 percent for the retail accommodation.

We should note that the rental levels outlined above reflect the current infrastructural issues such as lack of parking, generally ongoing construction process within Moscow City and the uncertainty of the tenants regarding the operation of the Property which is reflected in rental discounts for some of the tenants. Along with a resolving of the above issues the rental levels are expected to grow up as it is indicated by the provided tenancy schedule and the vacancy rate in line will decline to its sustainable level. We believe that additional period of five years may be required for the stabilisation of cash flows and achievement of the sustainable vacancy rate.

Projections on the income growth and occupancy level applied in our valuation are presented in Appendix 1 to this Report.

5.6.2 Office Accommodation

The predominant offer in 'Moscow-City' is office premises in multi-storey towers. The usual tenants for such offices are large consulting companies, financial institutions, banks, and corporations. Information regarding rental rates for office space and car parking is presented in the table below.

Table 15

Picture	Description
	<p>Naberezhnaya Tower Site No.10 Developer – ENKA <i>Concept details</i></p> <ul style="list-style-type: none"> • Offices – 158,135 m² GLA • Typical floor plate approx. 1,200m² (phases 1 and 2) • Retail premises – 1,500m² • Parking – 861 spaces <p><i>Project status:</i> Completed</p> <p><i>Rental details</i></p> <ul style="list-style-type: none"> • Current asking office base rent: \$850 – \$870/ m² • OPEX ~ \$130 / m² • Car parking rent, per space per month: <ul style="list-style-type: none"> ○ underground - \$450 <p>Commercial loss factor: 7-12% (depending on the phase and leased area) Tenants include – KPMG, Renaissance Capital, IBM, Citibank, Kit Finance, Eli Lilly Vostok</p>
	<p>Capital City Site No.9 Developer – Capital Group (Capital Group LLC) <i>Concept details</i></p>

Picture	Description
	<ul style="list-style-type: none"> • Offices – 80,494m² GLA • Apartments – 101,440m² • Retail premises – 10,000m² • Parking – 2,110 spaces (1,230 spaces are supposed to be allocated for offices) <p><i>Phasing</i></p> <ul style="list-style-type: none"> • Phase 1 – Q4 2008 (29,786m² office premises) • Phase 2 – Q4 2009 (50,708m² office premises) <p><i>Project status:</i> Completed</p> <p>Rental details</p> <ul style="list-style-type: none"> • Asking office base rent: \$850-\$1100 / m² • OPEX ~ \$140 / m² • Car parking rent (underground): \$550 <p>Commercial loss factor: 10%</p>

Northern Tower

Site No.19

Developer – ENKA (ZAO “Severnaya Bashnya”)

Concept details

- Offices – 48,700 m² GLA
- Conference hall with 200 places
- Retail premises – 500 m²
- Parking – 688 spaces

Phasing

- Phase 1 – Q1 2008 (27,000m² GLA office premises)
- Phase 2 – Q2 2008 (21,700m² GLA office premises)

Project status: Completed

Rental details

- Asking office base rate: \$650-850/ m²
- OPEX ~ \$125 / m² p.a. + utilities
- Car parking rent: \$450 per space per month.

Federation Tower

Site No.13

Developer – Mirax

Total Gross area – 324,980 m²

Concept details

- Offices – 181,800 m² GBA
- Retail – 5,800 m² GBA
- Hotel – 57,698 m² GBA
- Apartments – 78,500 m² GBA
- Other (technical and steeple) - 31,175m² GBA
- Parking – 2,050 spaces (increasing to 4,352 spaces).

Phasing

- Phase 1 (Tower B 'Zapad', office space ~ 80,800m²) – Q1 2008
- Phase 2 (Tower A 'Vostok', office space ~ 101,000m²) – Q4 2013
- *Project status:* Phase 1 is completed, phase 2 is under construction.

Office Rental details

- Asking office base rate in Tower B: \$750-\$1500 / m²
- OPEX ~ \$110 / m² + utilities + VAT
- Car parking rent: \$500 per space per month.

Mercury City Tower

Site No.14

Developer – Mercury Development

Total Gross area – 158,528m²

Picture	Description
	<p><i>Concept details</i></p> <ul style="list-style-type: none"> • Offices – 71,245m² GLA • Retail – 6,200 m² GLA • Apartments – 24,000 m² GBA • Parking – 462 spaces. <p><i>Project status:</i> scheduled for delivery in 2013.</p> <p><i>Office Rental details</i></p> <ul style="list-style-type: none"> • Asking office base rate: \$750-\$1150 / m² • OPEX ~ \$150 / m²

While estimating the market level of the base rent for the office premises in the subject property we should take into account the specific character of the proposed offices compared to other 'Moscow-City' projects. The office premises within the subject development, taking into account the size and height of the location in comparison with towers, are more attractive for smaller tenants.

According to the analytical research prepared by Jones Lang LaSalle specialists, base rents for class "A" offices amount to \$600-850 per m² per annum in Q4 2011. However, taking into account the level of vacancy rates within 'Moscow-City', in our estimations we preferred not to base our assumptions on the asking rents, which may be obtained from the public sources. Thus, we relied mostly on the results of our internal research and on the experience of the brokers from Jones Lang LaSalle Office Agency Department who actively participate in transactions on leasing of comparable assets.

Therefore, within the valuation we have applied the following rental rates for the office accommodation.

Table 16

Type of tenant / Premises	GLA, m ²	Base rent, \$/m ² p.a.	Potential Gross Income (Rental Value), \$
Offices	1,115	600	669,000

In calculating the effective gross income, we have deducted a stabilised average vacancy loss of 3 percent for office accommodation.

5.6.3 Income from Parking

The parking is an essential for operation of the shopping centre and customers attraction and therefore is usually either free of charge or becomes paid after the first three hours which is the average time the visitor is spending in the shopping centre. In more centrally located shopping centres with limited parking capacity the hourly rate is charged starting from the first hour although discounts are applied for the first hours. The rates usually vary from RUB 25 to RUB 50 per hour for the first three hours and from RUB 50 to RUB 100 per hour starting from the 4th hour of stay.

Considering the location of the property and limited availability of parking on the surrounding territory we believe that it would be reasonable to charge hourly rate starting from the first hour of stay. As a benchmark for estimation of the appropriate rate per hour we consider Evropeyskiy and Atrium shopping centres which have similar location characteristics to AFI Mall City and suffer from the shortage of parking spaces. We therefore assume the base hourly rate within the subject property to comprise RUB 50 or approximately \$1,32 per hour per parking space net of VAT.

Based on the experience of Jones Lang LaSalle's Strategic Consulting team we estimate the average annual income from parking space taking into account the different occupancy of the parking depending on week days and time of the day:

Table 16. Average occupancy estimation

Table 17. Gross effective income estimation

Parking space, USD/hour, net of VAT	1,32
Working hours (10 - 22)	12,0
Potential income from 1 parking space, USD pa	5 764
Occupancy	72%
Effective income from 1 parking space, USD pa	4 150
# of parking spaces	2,035
Total Effective income from parking, USD pa	8,445,250

5.7 Investment Comparables and Considerations

Below we outline the information about the most recent investment transactions reported on the Moscow office and retail market, which took place during the course of 2010-2011.

Table 18 Investment comparables

Samples of transactions

Offices

Horus Portfolio **5 office assets in Moscow**

Krugozor

Address: 30 Obrucheveva Street

Class of building: B+

Completed: 2006

Description: office complex consisting of 2 buildings. Modern amenities include air-conditioning, fibre optics, fire-alarm systems. The tenants are provided with 5-level Structured parking.

Tenants: VW, Nike, Citybank, IBM, Samsonite

Gross Building Area: 56,100 sq m

Office leasable area: 50,400 sq m

Stanislavsky Factory

Address: 21 Stanislavsky Street

Class of building: B+

Completed: 2008

Description: office scheme in the centre of Moscow with a rich infrastructure: a restaurant, boutique hotel, cafe, theatre.

Tenants: Raiffeisen Leasing, Redbull, Sony

Gross Building Area: 37,100 sq m

Office leasable area: 33,700 sq m

LeFort

Address: 27 Elektrozavodskaya Street

Class of building: B+

Completed: 2006

Description: Reconstructed Class B+ office complex, comprising 7 buildings. Well-developed infrastructure, including canteen, 2 cash-machines, dry-cleaning, beauty-shop etc. Modern engineering systems including central air-conditioning. Open-space lay-out. Loss factor - 10,25%. Parking ratio - 1/70 sq m.

Tenants: Alcatel-Lucent, MDM-Bank, GE

Gross Building Area: 63,620 sq m

Office leasable area: 56,800 sq m

Avion

Address: 47 Leningradsky Prospekt

Class of building: B+

Completed: 2004

Description: 5-storey office building with modern engineering systems. Canteen and other amenities are installed. Loss factor - 12%.

Tenants: Mercedes-Benz, Mail.Ru

Gross Building Area: 22,200 sq m

Office leasable area: 18,500 sq m

Gamma

Address: 5/15 Gamsonovsky Pereulok

Class of building: B+

Completed: 2005

Description: Reconstructed class B business complex comprising 3 buildings
 Tenants: ManPower, CityExpress
 Gross Building Area: 11,280 sq m
 Office leasable area: 9,400 sq m

Estimated Sale Price: USD 800 mln
 Sale date: November 2010
 Seller: Horus Capital
 Buyer: Otkritie FC
 Initial Yield: circa **10.5%**

BC Metropolis

Address: Leningradskoye Shosse 16, bld. 2
 Class: A
 Completed: 2008

Description: Class A office building of 32,600 sq m, office area – 22,170 sq m. Leasable floor area 2,805 sq m. The building is a 2nd phase of a multi-use office and retail complex “Metropolis” totaling 325,000 sq m. Effective open-space floor layout. Modern technical equipment. Tenants: BBC Russia, VTB 24, Megafon, Russia Consulting.

GBA: 32,600 sq m
 GLA: 22,170 sq m
 Sale price: n/a
 Sale date: Q3 2011
 Seller: Capital Partners
 Buyer: Heitman Property Partners IV
 Initial Yield: circa **9%**

Gogolevsky, 11

Address: Gogolevsky blvd.,11
 Class: A
 Completed: 1997

Description: 9-storey office building comprising total area of 10,897 sq m. Office area - 7,663 sq.m. The building offers the highest quality international standard of design, construction, internal fit-out and amenities: 24-hour security, video monitoring and access control, cafeteria, central lobby with reception. All modern engineering systems: fiber-optic, telecom lines, monitoring systems, smoke detectors, 4-pipe conditioning, HVAC etc. Two-level secured and heated underground parking for 44 cars and adjacent secured surface parking for 11 cars.

GBA: 10,900 sq m
 GLA: 7,663 sq m
 Sale price: \$96,000,000
 Sale date: Q3 2011
 Seller: Fleming Family and Partners
 Buyer: Hines Global Reit
 Initial Yield: circa **9%**

Capital Plaza

Address: 4 Lesnoy Lane
 Class of building: A

Description: 14-storey office building. All modern engineering systems are installed: independent 2-pipe central air-conditioning, fiber optics telecommunication, fire alarm Security Pro etc. 3-level underground parking with parking ratio 1/90. Open floor plate. Loss factor - 10%.

Tenants: LG, Baccardi Martini, Regus, Unilever
 Completed: 2005
 Gross Building Area: 50,736 sq m
 Leasable area: 38,078 sq m
 Sale Price: USD 180 mln
 Sale date: May 2010
 Seller: Capital Group

Buyer: VTB Capital
Initial Yield: circa 12%

Bakhrushina House

Address: 32 bld.1 Bakhrushina Street
Class of building: B+
Completed: 2002
Description: 5-storey modern office building with retail space on the 1st floor. Underground and surface parking. Located in one of the most prestigious historic parts of Moscow.
Tenants: BBC Russia, VTB 24, Megafon, Russia Consulting
Gross Building Area: 5,093 sq m
Office leasable area: 3,063 sq m
Sale Price: USD 35 mln
Sale date: May 2010
Seller: Akron Group
Buyer: UFG Real Estate II
Initial Yield: circa 11.5%

Samples of transactions

Retail

Kaluzhsky Shopping Centre

Address: Profsouznaya Street, 61A
Completed: 2003
Description: 4-storey building. Multi-level car parking for 800 spaces.
Tenants: Perekrestok, Eldorado, Cinema Park.
Developer: Z-Build.
Gross Building Area: 29,000 m²
Retail leasable area: 18,000 m²
Sale Price: ~ USD 160-170 mln
Sale date: June 2011
Seller: MosCityGroup and Z-Build

Gorbushkin Dvor and Filion Shopping Centre

Address: Bagrationovskiy Proezd, 5
Completed: 2009
Description: 4-storey building. Multi-level car parking for 1350 spaces.
Tenants: Auchan, Decathlon, Babylon.
Developer: MTZ Rubin.
Gross Building Area: 128,000 m²
Retail leasable area: 55,000 m²
Sale Price: USD 450 mln
Sale date: June 2011
Seller: MTZ Rubin
Comments: the shopping centre was sold together with Gorbushka retail centre (60,000 m²)

Three Metromarket SCs

Address: Leningradsky prospect 76/ 3, Krutitsky pereulok 18, Dmitrovskoe Shosse 13A
Description: three community shopping centers located in close proximity to the metro stations
Developer: Capital Group
Gross Building Area: 19,500 m²
Sale Price: USD 100-150 mln

Sale date: August 2011
Seller: Capital Group

Dream House

Address: Moscow Region, Barvikha village, 85/1
Completed: 2005
Description: 4-storey building; parking for 150 spaces.
Tenants: Azbuka Vkusa, Villeroy & Boch, L'etual.
Developer: CMI Development
Gross Building Area: 12,580 sq m
Retail leasable area: 9,355 sq m
Sale Price: USD 100-150 mln
Sale date: 3Q 2011
Seller: CMI Development

Galeria SC, St. Petersburg

Address: Ligovskiy Prospect 30a,
Description: 5-storey shopping centre, located in the centre of St. Petersburg, in proximity to Moskovskiy railway station and three subway stations. It provides high quality retail space with about 290 shops, cinema for 10 rooms and a bowling for 27 tracks. Underground parking - 1,300 spaces.
Developer: Stroyitelnaya Kompanya Briz
Gross Building Area: 192,000 m²
Sale date: December 2011
Seller: Meridian Capital

5.7.1 Commentary

In 2011 investment volume into real estate was record high in Russia, across the office, retail and logistic sectors with the total volume of closed deals up 73% YoY in 2011, to USD8.4 bn.

In respect of senior debt, during the last months of 2012 the cost of bank financing increased and it has become more difficult to secure. Buyers look for assets with senior debt in place. Assets without senior debt have become less attractive.

Project finance remains in short supply and because of this, we are seeing developers selling assets and using the sale proceeds to develop out their land banks.

A number of real estate investors, who up until now have been familiarizing themselves with the market, are now actively looking to acquire property. Heitman's acquisition at Metropolis is a case in point.

In addition to those transactions detailed above, there are a number of notable others. During Q2 2011, Coalco sold their 47 per cent interest in White Square to VTB for a price rumoured to equate to a return of circa 9.6%. As this was a minority shareholding, we would expect the yield level to be more generous.

In addition to White Square, we are aware of several other transactions. Firstly, a ninety per cent share of Berlin House was sold by EPH to a Russian property company. The details are confidential, but we understand the price paid (circa \$90,000,000) reflects an initial yield of 7.2%. G11, an office building at Gogolevskiy Bulvar in the city centre, has been sold by Fleming Family and Partners to Hines Global Reit at a rumoured initial yield of just under 9%.

Currently, Ducat III is in the process of being sold. This building is highly reversionary, and as such, we believe that the initial yield that will be paid will be below 7%, rising steadily in 2013 and 2014 as new leases are agreed to over 9%. We understand that O1 Properties are closing the deal to acquire the property for about USD 360 mln.

With respect to retail market, Galeriya in St. Petersburg has been sold at the yield of sub 9% and that Metropolis in Moscow is under offer at the yield of sub 9%. These latter two deals are important, as they demonstrate investor appetite for large single lot sizes (both these retail centres are priced at in excess of one billion US Dollars).

There are now numerous investors seeking real estate investments in Moscow, both Russian and foreign. In terms of foreign capital, Morgan Stanley, PPF, China Investment Corporation (CIC), GIC real estate, Ashmore, TPG, UFG Asset Management are all active participants in the market. Local investors include Lenhart global, PSN Group, O1 Properties, TPS, FinPoint, VTB Capital and Troika.

We understand that currently the yields for prime shopping centres in Moscow are in the range between 9.0% and 9.5%.

The subject property could be regarded as a prime asset, either in terms of its location and specification, it is a well located building in the center of Moscow, let to a mixture of national and international covenants.

5.8 Saleability

A more comprehensive commentary on the investment market in Russia and particularly Moscow, is contained within the main body of this report.

The subject property is a Regional Development Shopping Centre located in the MIBC 'Moscow-City'. It has a number of characteristics that will make it particularly attractive to certain investors. The most appealing of these would be its location in a new business district in Moscow comparable to the likes of Canary Wharf in London or La Defense in Paris. Currently there are no other comparable districts in Moscow in terms of central location, opportunities for large development, critical mass, central planning of territory development, and support from the authorities. The number of daily visitors to 'Moscow-City' will be 162,000 persons with an upper-middle income level. In the longer term, the population of the catchment areas for the project will grow significantly upon completion of the residential elements within the 'Big City'.

The scale of the property and the uncertainties about the availability of debt in the future significantly restrict the number of prospective buyers and the saleability of the property as a whole. The saleability of the property is significantly enhanced by disposal through the offering of shares in the SPV to a number of institutional investors. In arriving at our opinion on the exit yield we have considered the size of the Property, its quality and location and have taken into account that the Client had recently obtained 100% percent share in the shopping centre and also acquired the unfinished underground parking. At the same time the adopted yield reflects the existing issues including the parking which still needs the time and investments to be completed and the uncertainty regarding the footfall and the operation of the Property. As a result we have assumed the exit yield on ERV of 10.0%.

It should be noted that this yield does not reflect purchaser's costs, which is a standard approach in the valuation of properties in Russia.

6 Valuation Commentary

6.1 Valuation Approach

There are three approaches to market value calculation.

Cost approach is based on the assumption that market participants compare the value of the property with the costs required to build it. The value of the property is the sum of the land value and the construction costs less accumulated depreciation. This approach is best used when information on sale comparables does not exist.

The sales comparable approach is the most efficient when information on transactions is available. Estimations of the properties' market value are based on analysis of recent sales of comparable real estate assets subject to adjustments, which reflect the condition and specific of use of the valued property compared with the comparable property. Usually the approach based on a comparison of the valued property with data on sales of comparable assets and information on asking prices can also be used.

The Income Approach is a method used to convert the anticipated economic benefits of property ownership into a value estimate through a capitalisation approach.

The two most common methods of converting net income into value are the discounted cash flow technique (DCF) wherein anticipated future income streams and a reversionary value are discounted to a present value estimate and the direct capitalisation technique, where an overall rate is extracted directly from pertinent market sales.

For the purpose of the current valuation we have used the discounted cash flow method. The discounted cash flow ("DCF") methodology can be used which involves the calculation of the present value ("PV") of all future costs and income to be incurred and generated by the development of the property. This cash flow is discounted at an appropriate rate and this in turn generates the present value of the cash flow, which is the sum available for the purchase of the site at the date of valuation.

The DCF methodology implies the following steps:

- The calculation of the amount and time structure of costs required for the project development;
- The calculation of the amount and time structure of income from the project operation;
- The calculation of the amount and time structure of operating expenses required for the income receipt from the project operation;
- The calculation of the discount rate reflecting the corresponding risk level of capital investment in the valued property at different stages of development;
- The calculation of the market value by discounting all the costs and income connected to this property.

The discounting means conversion of future costs and income to the present date at an appropriate discount rate assumed by the Valuer.

The discount rate is calculated basing on the analysis of capital rates of return for the alternative investment in terms of risk level.

The income can be earned from lease or sale of the whole property in the most probable time at the market price.

Below we give a description of main inputs on which we based our valuation.

6.2 Estimation of the Market Value

6.2.1 Cost Analysis

Outstanding development costs

The retail part is fully operating and does not require any outstanding investments according to the Client information, however, the underground parking is estimated as being 65 percent completed as at the date of valuation. Set out below is a summary of the outstanding construction costs necessary to complete the parking incorporated into our valuation. These figures have been arrived at with regard to those costs provided to us by the Client but having also taken into account our own enquiries and experience.

Table 19. Construction costs estimation

Investment Costs	
Outstanding construction costs (parking), '000 \$	19,162
Entrepreneur's profit (5% of the outstanding construction costs), '000 \$	958
Total Investment Costs, '000 \$	20,120

- It should be noted that in estimating development costs we have based on the data provided by the Client, costs are assumed as fixed and fully contracted.
- Construction costs exclude VAT.

In estimating the development costs we have also made an appropriate allowance for the Entrepreneur's Profit.

The Entrepreneur's Profit is the reward of the investor for the risks that accompany the project. Considering such risks, it is normal to include an Entrepreneur's Profit in the total development costs. The Entrepreneur's Profit constitutes a part of the sale profit or additional income generated by investments in property management and operation of the asset. The Entrepreneur's Profit is estimated as a percentage of the property's value constituents, which vary in different real estate markets.

In valuations of development projects, the allowance for the Entrepreneur's Profit depends on the development status of the particular project, ie. the degree of permission documentation obtained as at the valuation date. In accordance with our estimations, about 70 percent of the Entrepreneur's Profit is related to the high-risk stages of concept development and obtaining the permissions and approval.

We assume that entrepreneur's profit will comprise 5% of the remaining construction costs, or \$958,098. The total outstanding development budget for the construction comprises \$20,120,056.

As at the date of valuation the shopping centre is operating. The construction of the parking is expected to be completed before the end of 2012.

Land payments – considering the fact that the Client has a leasehold interest in the valued land plot, land payments are represented by the land rent.

In accordance with information provided by the Client after the long-term land lease agreement is executed, the annual land rent is estimated at \$434,835.

Property tax – this is based upon a rate of 2.2 percent of the subject property's book value. According to the information provided by the Client the approximate sum of the property tax for 2012 amounts to \$12,635,125. This

will increase by \$2,1 mln approximately in 2013 as the underground parking (2,035 parking places) is put into operation.

Agents' fee

In respect of the retail space, we have assumed agents' fees equating to 3 percent of the rental value and legal fees of 2 percent.

6.2.2 Income Analysis

Basing on the results of our analysis of the market, location and characteristics of the subject property, we have made the assumptions regarding rental levels for the property specified in clause 5.6.

The DCF model shows projections on income growth which are estimated after having reviewed tenancy schedule provided to us by the Client and also consultations with agents and represent the size of the property, infrastructure development and the planned average rental level.

In respect of vacancy, the market level of vacancy rate has declined from 7 percent to 4 percent during the course of H2 2011. Given the parameters of the project, in the professional opinion of our in-house retail agents, the project can achieve the sustainable vacancy level of 3%.

We have been provided by the Client with information on the actual operating expenses over the past 10 month of property operation and also with forecast operating budget for the period of 2012 – 2015. Having compared it with the service charges collected from the tenants we have estimated the projected OPEX loss for the period of 5 years (presented in the Appendix 1 to the report).

Considering the fact that the property has been recently put into operation we believe that some of the operating expenses may be reduced in the future. In particular, there is a potential for the reduction in marketing expenses as the leasing progresses and the property becomes more mature. The expenses on maintenance during the first year of operation usually include costs to eliminate inevitable minor construction defects and can be subsequently reduced as well. To reflect this we have assumed that the operating expenses (excluding property tax, land rent and expenses for maintenance of the parking) will decrease by 7 percent annually over the period of 5 years. This is also supported by the forecast operating budget provided to us.

As a result of the above analysis, on full occupancy the OPEX loss is estimated at \$11,455,491 per annum.

6.2.3 Terminal Value

Forecasting terminal capital cash flow envisages three options:

- Estimating a resale value as an amount.
- Estimating a percentage change over the holding period.
- Applying a terminal cap rate to estimated net operating income one year after the holding period.

In our calculation we applied a terminal capitalisation rate to the Net Operating Income in the year following the last forecasted year.

Based on the results of our market analysis we applied a capitalisation rate of 10 percent to calculate the terminal cash flow in the end of 2016. The calculation of the terminal cash flow is given in the table below:

Table 20. Terminal value calculation

Sale Assumptions, December 2016	Formula	100% AFI's share
Potential gross income, '000 \$/year (PGI)		149,553,428
Payments and vacancy losses, '000 \$/year (L)		4,220,712
Effective gross income, '000 \$/year (EGI)	PGI-L	145,332,716
Non-recoverable operating expenses, '000 \$/year (OpEx)		11,455,491
Net operating income, '000 \$/year (NOI)	EGI-OpEx	133,877,226
Cap rate (exit yield), % (Y)		10.00%
Terminal value, '000 \$	NOI/Y	1,338,772,256

6.2.4 Yield Capitalization (Discounted Cash Flow Analysis)

In order to select the discount rate (the rate of return), we have used the WACC method (Weighted Average Cost of Capital):

WACC = $Y_E \cdot (1-M) + Y_M \cdot M$, where:

Y_E – the required equity yield rate for the current level of project's risk;

Y_M – the required mortgage yield rate secured by real estate properties;

M – the proportion of the loan in the overall capital structure.

According to the information we received from several investors, the required equity yield rate (Y_E) can be within the range of $11\% < Y_E < 35\%$ depending on the project's status.

The required mortgage yield rate secured by real estate properties (Y_M) can be within the range of $9\% < Y_M < 20\%$ depending on the project.

In order to calculate the discount rate we worked out a financial scenario for each forecasted year:

Table 21. Discount rate calculation

	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16
Ye	15%	14%	12%	11%	11%
Ym	11.0%	10.5%	10.0%	10.0%	10.0%
M	70%	70%	70%	70%	70%
WACC	12.2%	11.6%	10.6%	10.3%	10.3%

According to our estimations, the weighted average discount rate comprises **11.1 percent**.

Having undertaken an appraisal on this basis, this produces a market value of approximately \$1,160,000,000.

6.2.5 Sensitivity analysis

Table 22.

Input	Change	Change of the Market value, '000 USD
Occupancy rates	Increase by 2%*	30,900
	Decrease by 2%*	-30,800
Capitalisation rates	Increase of 10%**	-72,200
	Decrease of 10%**	88,400
Average rent per sq.m	Increase of 5%**	65,700
	Decrease of 5%**	-65,700

* in absolute terms

** in relative terms

7 Valuation

7.1 Market Value

We are of the opinion that the Market Value of the subject property in accordance with the special assumptions detailed within this report, as at 31 December, 2011, equates to:

\$1,160,000,000

(One Billion One Hundred and Sixty Million US Dollars)

7.2 Realisation Costs

Our Valuation is exclusive of VAT and no allowances have been made for any expenses of realisation nor for taxation, which might arise in the event of a disposal of any property. In addition, our valuation is net of purchaser's acquisition costs.

7.3 Exchange Rates

We have indicated the Market Value of the subject property in US Dollars. In arriving at our opinion of value we have adopted the exchange rate of the \$ (USD) against the Russian Rouble (RUB) of 1 USD = 32.1961 RUB.

7.4 Confidentiality and Publication

This Valuation Report has been prepared for and only for AFI Development PLC for the purposes of assisting the Company to value the asset as at 31 December 2011 on the Market Value basis, for the purpose stated above in this Valuation Report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability in respect of the whole or any part of the Valuation Report for any other purpose or to any other person or entity to whom the report or valuation is shown or disclosed or into whose hands it may come, whether published with our consent or otherwise, except where expressly agreed by our prior consent in writing.

For the avoidance of doubt, such approval is required whether or not Jones Lang LaSalle are referred to by name and whether or not the contents of our valuation report are combined with other reports.

Yours faithfully

Chris Dryden, MRICS

National Director

For and on behalf of Jones Lang LaSalle

Sergey Belov, MRICS

National Director

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APPENDIX 1 – Valuation Calculations

Effective Gross Income	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Total
Income from signed leases, 000'\$	80,924	87,663	89,203	90,043	90,172	438,006
Income from agreed leases, 000'\$	1,083	1,083	1,083	1,083	1,083	5,417
Income from vacant space, 000'\$	49,435	49,435	49,435	49,435	49,435	247,175
PGI, 000'\$	131,443	138,181	139,722	140,562	140,690	690,598
Income weighted average occupancy level, %	65%	80%	90%	95%	97%	
Effective Gross Income from retail, 000'\$	85,438	110,545	125,749	133,534	136,470	591,736
Effective Gross Income from parking, 000'\$	4,223	8,446	8,446	8,446	8,446	38,007
Other income, 000'\$	417	417	417	417	417	2,085
Total Effective Gross Income, 000'\$	90,078	119,408	134,612	142,397	145,333	631,828

Investment Costs	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Total
Outstanding construction costs (parking)	19,162	0	0	0	0	19,162
	<i>100%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	
Entrepreneur's profit	958	0	0	0	0	958
	<i>100%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	
Total Investment Costs, '000 \$	20,120	0	0	0	0	20,120

Time-line	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Total
Investment time-line	20,120	0	0	0	0	20,120
= cumulative	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	
Investment costs, '000 \$	20,120	0	0	0	0	20,120
= cumulative	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	

Operating Expenses	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Total
Operating expenses, '000 \$	23,476	21,832	20,304	18,883	17,561	102,056
Property tax, '000 \$	12,635	13,781	13,306	12,831	12,356	64,909
Land rent, '000 \$	435	435	435	435	435	2,174
Parking operating expenses, '000 \$	746	2,239	2,239	2,239	2,239	9,700
Total Operating Expenses, '000 \$	37,292	38,287	36,284	34,387	32,590	178,839
Service charges, 000'\$	14,162	17,431	19,609	20,699	21,135	93,036
Service charges discounts, 000'\$	88					
Opex loss, 000'\$	23,041	20,856	16,674	13,688	11,455	85,716
Parking rent, 000\$	2,378					2,378
Total Non-Recoverable Operating Expenses, '000 \$	25,419	20,856	16,674	13,688	11,455	88,094

Market Value Calculation	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Total
Effective gross income, 000'\$	90,078	119,408	134,612	142,397	145,333	631,828
Terminal value from commercial areas, 000'\$	0	0	0	0	1,338,772	1,338,772
Total in-flow	90,078	119,408	134,612	142,397	1,484,105	1,970,600
Investment costs, 000'\$	20,120	0	0	0	0	20,120
						0
Operating expenses, 000'\$	25,419	20,856	16,674	13,688	11,455	88,094
Letting Agents Fees, 000'\$	3.0%	135	551	410	208	1,389
Legal fees on letting, 000'\$	2.0%	90	367	273	139	926
Total out-flow	45,765	21,775	17,357	14,035	11,596	110,529
Total in-flow, 000'\$	44,313	97,633	117,255	128,361	1,472,509	1,860,072
Net total in-flow, \$	44,313	97,633	117,255	128,361	1,472,509	1,860,072
Cumulative	44,313	141,946	259,201	387,562	1,860,072	
Discount Rate	12.20%	11.55%	10.60%	10.30%	10.30%	
Discount coefficient	1.0000	0.8913	0.7990	0.7224	0.6549	0.5938
Net present value, 000'\$	39,494	78,007	84,706	84,070	874,358	1,160,636
Cumulative	39,494	117,502	202,208	286,278	1,160,636	
Market Value, '000 \$		1,160,000				

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APPENDIX 2 – Photographs

Photographs provided by the Client

Retail gallery	Atrium
Sitting area	Escalators
External views	



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APPENDIX 3 – Typical Floor Plan

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APPENDIX 4 – General Principles Adopted in the Preparation of Valuation and Reports

These are the general principles upon which our Valuations and Reports are normally prepared; they apply unless we have specifically mentioned otherwise in the body of the report. Where appropriate, we will be pleased to discuss variations to suit any particular circumstances, or to arrange for the execution of structural or site surveys, or any other more detailed enquiries.

These General Principles should be read in conjunction with Jones Lang LaSalle's General Terms and Conditions of Business.

1.RICS Valuation Standards:

Valuations and Reports are prepared in accordance with the Practice Statements contained in the RICS Valuation Standards (Seventh Edition) published by the Royal Institution of Chartered Surveyors, by valuers who conform to the requirements thereof.

Except where stated, Jones Lang LaSalle and Jones Lang LaSalle Hotels are External Valuers.

2.Valuation Basis:

Properties are generally valued to "Market Value" or alternatively another basis of valuation as defined in the Appraisal and Valuation Manual. Market Value is defined as "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The full definition of any other basis, which we may have adopted, is either set out in our report or in the Valuation Standards.

There are interpretative commentaries on the definitions which are set out in the Valuation Standards and which we will be pleased to supply on request.

In our valuations no allowances are made for any expenses of realisation, or for taxation, which might arise in the event of a disposal. All property is considered as if free and clear of all mortgages or similar financial encumbrances, which may be secured thereon.

Unless otherwise stated, our valuations are of each separate property. Portfolio valuations are aggregates of individual valuations rather than the portfolio having been valued as a whole. No allowance is made for the effect of the simultaneous marketing of all/or a proportion of the properties.

3.Source of Information:

We accept as being complete and correct the information provided to us, by the sources listed, as to details of tenure, tenancies, tenant's improvements, planning consents and other relevant matters, as summarised in our report.

4.Documentation:

We do not normally read leases or documents of title. We assume, unless informed to the contrary, that each property has a good and marketable title, that all documentation is satisfactorily drawn and that there are no encumbrances, restrictions, easements or other outgoing of an onerous nature, which would have a material effect on the value of the interest under consideration, nor material litigation pending. Where we have been

provided with documentation we recommend that reliance should not be placed on our interpretation without verification by your lawyers.

5.Tenants:

Although we reflect our general understanding of a tenant's status in our valuations, enquiries as to the financial standing of actual or prospective tenants are not normally made unless specifically requested. Where properties are valued with the benefit of lettings, it is therefore assumed, unless we are informed otherwise, that the tenants are capable of meeting their financial obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.

6.Measurements:

Where appropriate, all measurement is carried out in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors, except where indicated or where we specifically state that we have relied on another source.

7.Town Planning and Other Statutory Regulations:

Information on Town Planning, wherever possible, is obtained verbally from the Local Planning Authority. We do not make formal legal enquiries and, if reassurance is required, we recommend that verification be obtained from lawyers that:

- 7.1. the position is correctly stated in our report;
- 7.2. the property is not adversely affected by any other decisions made, or conditions prescribed, by public authorities;
- 7.3. there are no outstanding statutory notices.

Outside the UK however, it is often not possible to make such verbal enquiries.

Our valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory and EC regulations, including enactments relating to fire regulations, access and use by disabled persons and control and remedial measures for asbestos in the workplace.

8.Structural Surveys:

Unless expressly instructed, we do not carry out a structural survey, nor do we test the services and we therefore do not give any assurance that any property is free from defect. We seek to reflect in our valuations any readily apparent defects or items of disrepair, which we note during our inspection, or costs of repair which are brought to our attention.

9.Deleterious Materials:

We do not normally carry out investigations on site to ascertain whether any building was constructed or altered using deleterious materials or techniques (including, by way of example, high-alumina cement concrete, woodwool as permanent shuttering, calcium chloride or asbestos). Unless we are otherwise informed, our valuations are on the basis that no such materials or techniques have been used.

10. Site Conditions:

We do not normally carry out investigations on site in order to determine the suitability of ground conditions and services for the purposes for which they are, or are intended to be, put; nor do we undertake archaeological, ecological or environmental surveys. Unless we are otherwise informed, our valuations are on the basis that these aspects are satisfactory and that, where development is contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these matters.

11. Environmental Contamination:

Unless expressly instructed, we do not carry out site surveys or environmental assessments, or investigate historical records, to establish whether any land or premises are, or have been, contaminated. Therefore, unless advised to the contrary, our valuations are carried out on the basis that properties are not affected by environmental contamination. However, should our site inspection and further reasonable enquiries during the preparation of the valuation lead us to believe that the land is likely to be contaminated we will discuss our concerns with you.

12. Insurance:

Unless expressly advised to the contrary we assume that appropriate cover is and will continue to be available on commercially acceptable terms. For example in regard to the following:

Composite Panels

We understand that a number of insurers are substantially raising premiums, or even declining to cover, buildings incorporating certain types of composite panel. Information as to the type of panel used is not normally available, and the market response to this issue is still evolving. Accordingly, our opinions of value make no allowance for the risk that insurance cover for any property may not be available, or may only be available on onerous terms, or for any adverse market reaction to the presence of such panels.

Flood and Rising Water Table

Our valuations have been made on the assumption that the properties are insured against damage by flood and rising water table.

13. Currency:

Valuations are prepared in Sterling or, if outside the UK, the appropriate local currency. In some countries, particularly where inflation rates are unduly high, hotel values are often expressed in an international currency (eg. US Dollars).

14. Value Added Tax:

Valuations are prepared and expressed exclusive of VAT payments, unless otherwise stated.

15. Outstanding Debts:

In the case of property where construction works are in hand, or have recently been completed, we do not normally make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favour of contractors, subcontractors or any members of the professional or design team.

16. Confidentiality and Third Party Liability:

Our Valuations and Reports are confidential to the party to whom they are addressed for the specific purpose to which they refer, and no responsibility whatsoever is accepted to any third parties. Neither the whole, nor any part, nor reference thereto, may be published in any document, statement or circular, nor in any communication with third parties, without our prior written approval of the form and context in which it will appear.

17. Valuations Prepared On Limited Information:

In the event that we are instructed to provide a valuation without the opportunity to carry out an adequate inspection and/or without the extent of information normally available for a formal valuation, we are obliged to state that the valuation is totally dependent on the adequacy and accuracy of the information supplied and/or the assumptions made. Should these prove to be incorrect or inadequate, the accuracy of the valuation may be affected.

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APPENDIX 5 – Extract from the RICS Valuation Standards (7th edition)

Market Value

Definition and Interpretive Commentary. Reproduced from the RICS Valuation Standards – Global and UK 7th Edition, VS

3.2

Valuations based on Market Value (MV) shall adopt the definition, and the interpretive commentary, settled by the International Valuation Standards Committee.

Definition

'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'

Interpretive Commentary, as published in International Valuation Standard 1

3.2.

The term property is used because the focus of these Standards is the valuation of property. Because these Standards encompass financial reporting, the term Asset may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.

3.2.1 'The estimated amount ...'

Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm's-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.

3.2.2 '... a property should exchange ...'

Refers to the fact that the value of a property is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.

3.2.3 '... on the date of valuation ...'

Requires that the estimated Market Value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

3.2.4 ‘... between a willing buyer ...’

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute ‘the market’. A valuer must not make unrealistic Assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable.

3.2.5 ‘... a willing seller ...’

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the ‘willing seller’ is a hypothetical owner.

3.2.6 ‘... in an arm's-length transaction ...’

Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of Special Value (defined in IVSC Standard 2, paragraph 3.8). The Market Value transaction is presumed to be between unrelated parties each acting independently.

3.2.7 ‘... after proper marketing ...’

Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

3.2.8 ‘... wherein the parties had each acted knowledgeably, prudently ...’

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

3.2.9 ‘... and without compulsion.’

Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

3.3

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

Commentary

- a. The basis of Market Value is an internationally recognized definition. It represents the figure that would appear in a hypothetical contract of sale at the valuation date. Valuers need to ensure that in all cases the basis is set out clearly in both the instructions and the Report.
- b. Market Value ignores any existing mortgage, debenture or other charge over the property.
- c. In the conceptual framework in IVS quoted above (para 3.2.1) it is clear that any element of special value that would be paid by an actual special purchaser at the date of valuation must be disregarded in an estimate of Market Value. Special value includes synergistic value, also known as marriage value.
- d. IVS describes special value and synergistic value as follows:
 - Special Value can arise where an asset has attributes that make it more attractive to a particular buyer, or to a limited category of buyers, than to the general body of buyers in a market. These attributes can include the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any element of Special Value because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.
 - Synergistic Value can be a type of Special Value that specifically arises from the combination of two or more assets to create a new asset that has a higher value than the sum of the individual assets.
 - When Special Value is reported, it should always be clearly distinguished from Market Value.
- e. Notwithstanding this general exclusion of special value where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future, this element of 'hope value' is reflected in Market Value. Examples of where the hope of additional value being created or obtained in the future may impact on the Market Value include:
 - the prospect of development where there is no current permission for that development; and
 - the prospect of 'synergistic value' arising from merger with another property or interests within the same property at a future date.
- f. When Market Value is applied to plant & equipment, the word 'asset' may be substituted for the word 'property'. The valuer must also state, in conjunction with the definition, which of the following additional assumptions have been made:
 - that the plant & equipment has been valued as a whole in its working place; or
 - that the plant & equipment has been valued for removal from the premises at the expense of the purchaser.

Further information on plant & equipment valuation, including typical further assumptions that may be appropriate in certain circumstances, can be found in GN 5 and in IVS GN 3 – Plant & equipment.

- g. Where the property includes land which is mineral bearing, or is suitable for use for waste management purposes, it may be necessary to make assumptions to reflect either the potential for such uses or, where the land is already in such use, to reflect any potential future uses that may be relevant.

Where the property is personal property it may be necessary to interpret Market Value as it applies to different sectors of the market. Further information on this type of valuation can be found in IVSC GN 4 and 5.