REPORT AND VALUATION FOR

SISTEMA HALS

BOL. TATARSKAYA,
115184, MOSCOW
RUSSIA

OF THE FOLLOWING PROPERTY:

"THE MARGARITA PROPERTIES"

1ST JANUARY 2006

CUSHMAN & WAKEFIELD
STILES & RIABOKOBYLKO™
Real Estate Consultants

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The Directors

Sistema Hals

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For the attention of Michael Golomb

30th January 2006

Dear Sirs

PROPERTY VALUATION AS AT 1 JANUARY 2006

VARIOUS PROPERTIES TOGETHER KNOWN AS "THE PROJECT MARGARITA PROPERTIES" ("THE PROPERTIES")

SISTEMA HALS ("THE COMPANY")

In accordance with the contracts between ourselves and AFK Sistema, MGTS and Sistema Hals dated 26.10.2005 respectively, we have pleasure in reporting to you as follows:

1. SCOPE OF INSTRUCTIONS

We, Cushman & Wakefield Stiles & Riabokobylko ("C&WS&R"), have considered each property as set out in the Appendix.

We are instructed to prepare this Valuation Report for investment purposes and in addition regard has been taken of the potential inclusion in a prospectus ("Sistema Hals Offering Memorandum") concerning the proposed placing and offer ("Sistema Hals Offering") of Ordinary Shares in the Company, as required by the Listing Rules of the UK Listing Authority.

The effective date of each valuation is 1st January 2006.

Each valuation has been prepared in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors in May 2003 ("the Red Book") as amended, and prepared by an appropriate valuer who conforms to the requirements as set out in the Red Book, acting in the capacity of External Valuer.

We confirm that this Valuation Report is a Regulated Purpose Valuation as defined in the Red Book.

2. BASIS OF VALUATION

Each property is either: held as an investment; for development; or is in the course of development and has, as instructed and in accordance with the requirements of the Red Book, been valued on the basis of Market Value, as defined in the Red Book as: "*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*."

3. TENURE AND TENANCIES

We have not had access to the Title Deeds or Leases and each valuation has been based entirely on the information which the Company has supplied to us as to tenure, tenancies and statutory notices. We understand each property is either held by the Company, its subsidiaries, or jointly with third parties. We have valued a 100% share of the tenure stated in each property, unless otherwise specifically stated, as if each property was held entirely by the Company as at the valuation date. We have not made any adjustment to value, which may be appropriate when considering fractural ownership.

A number of properties are held leasehold on ground leases from Moscow City Government. The standard terms of these leases are that rents are reviewed annually (upwards, or downwards) in accordance with a city-wide formula that is set by the Moscow City Government. Each ground lease is subject to Term Extension Right Clause as standard, allowing for the extension of the duration of the lease upon expiry, on the same terms and conditions. However you should be aware that the effectiveness of the Term Extension Right Clause remains untested in the market because few leases have reached expiry. Our valuation assumes that the ground lease at each property can be extended in accordance with the Term Extension Right Clause.

Where a property is either "*currently in the course of development*" or "*held for future development*" and is held leasehold, the land leases generally confer the landlord's permission to develop. Where the considered development scheme differs from that anticipated by the land lease, our valuation assumes that the required variation to the landlord's permission will be forthcoming without material cost or delay. Where a property is to be held leasehold but the terms of the land lease are not finalised, our valuation takes in to account any additional, reasonable, risks of delay and cost in receiving landlord's permissions. We have assumed that there are no unforeseeable circumstances that would cause additional cost or delay in excess of that generally experienced.

The development of the majority of properties identified in this report as "an *MGTS* property" is to incorporate a floor area suitable for the installation of the tenant's digital telephone exchange. Each valuation includes the cost to the Company to provide such areas (structural and associated works), completed to a "shell" condition. Where we have been informed that there will be no future requirement for telephone exchange space this has been specifically identified in the report.

Upon completion, each valuation assumes that these areas will be leased to the telephone operator company for use as a digital telephone exchange, on normal market terms, save as to rent, which is nil.

Unless disclosed to us to the contrary and recorded in the property descriptions, each valuation is on the basis that:

a) the property possesses a good and marketable title, free from any unusually onerous restrictions, covenants or other encumbrances;

b) where the interest held in the property is leasehold, there are no unreasonable or unusual clauses which would affect value and no unusual restrictions or conditions governing the assignment or disposal of the interest;

c) leases to which the property may be subject are on standard market terms, and contain no unusual or onerous provisions or covenants which would affect value;

d) all notices have been served validly and within appropriate time limits;

e) the property excludes any mineral rights; and

f) vacant possession can be given of all accommodation which is unlet, or occupied either by the Company or by its employees on service occupancies.

In certain cases we have been informed by the Company that land lease rights are "*in the process of being formulated*". Unless otherwise stated our valuation is for a full share interest in the Property and assumes that a good and marketable title exists. This should be taken into account in consideration of individual properties. Where specific outstanding costs have been identified to us as being required to arrive at ownership of a full hsare interest in the requisitie Property or in order to obtain the necessary permits, these costs have been taken into account in the valuation in full.

For some properties we have been informed by the Company that investment contracts are held for the development . In these cases our valuations assume that a ground lease and an ownership certificate will be issued upon completion of the development, as is normal development practice in Moscow.

4. NET ANNUAL RENT

The net annual rent for each property is referred to in the Schedule at Appendix A. Net annual rent is defined in the Listing Rules as:

"the current income or income estimated by the valuer:

(i) ignoring special receipts or deductions arising from the property;

(ii) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and

(iii) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent".

5. TOWN PLANNING

We have not made formal searches, but have generally relied on verbal enquiries and any informal information received from the Local Planning Authority, or from the Company. Each valuation is on the basis that the property has been erected either prior to planning control or in accordance with a valid planning permission and is being occupied and used without any breach of planning or building regulations. Except where stated otherwise, each valuation is on the basis that each property is not affected by proposals for road widening, Compulsory Purchase, planning inquiry, or archaeological investigation.

We are informed by the Company that for a number of "properties held for development", the relevant planning permission approvals are either; "*in the process of being applied for*", or "*in the process of being updated*". Each valuation assumes that all required planning permission consents will be received within a normally acceptable timescale and that there are no such issues which would materially delay the issuance of the required consent, or have a material effect on value or marketability.

Although, where appropriate, we have considered the Company's business plan to develop each property, each valuation reflects our opinion of an appropriate development that could reasonably be expected to form the basis of a bid for a property by a third party. I.e. the Highest and Best Use as defined by the the International Valuation Standards has been considered for each property. The Highest ans Best Use is defined in Paragraph 3.4 of IVS 1 as: The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

Therefore our valuations do not necessarily reflect the Company's intended investment /development program.

6. STRUCTURE

We have neither carried out a structural survey of each property, nor tested any services or other plant or machinery. We are therefore unable to give any opinion on the condition of the structure or services at any property. Each valuation takes into account any information supplied to us and any defects noted during our inspection, but otherwise are on the basis that there are no latent defects, wants of repair or other matters which would materially affect each valuation.

We have not inspected those parts of each property which are covered, unexposed or inaccessible and each valuation is on the basis that they are in good repair and condition.

We have not investigated the presence or absence of High Alumina Cement, Calcium Chloride, Asbestos and other deleterious materials. In the absence of information to the contrary, each valuation is on the basis that no hazardous or suspect materials or techniques have been used in the construction of any property.

You may wish to arrange for investigations to be carried out to verify this.

7. SITE AND CONTAMINATION

We have not investigated ground conditions/stability and each valuation is on the basis that any buildings have been constructed, having appropriate regard to existing ground conditions. Where the property has development potential, our valuation is on the basis that there are no adverse ground conditions which would affect building costs. However, where you have supplied us with a building cost estimate, we have relied on it being based on full information regarding existing ground conditions. We have considered the Company's construction estimates in the light of typical market norms.

We have not carried out any investigations or tests, nor been supplied with any information from you or from any relevant expert that determines the presence or otherwise of contamination (including any ground water). Accordingly, our valuation has been prepared on the basis that there are no such matters that would materially affect our valuation. Should this basis be unacceptable to you or should you wish to verify that this basis is correct, you should have appropriate investigations made and refer the results to us so that we can review our valuation.

8. PLANT AND MACHINERY

Where the interest held in the property is freehold, usual landlord's fixtures such as lifts, escalators and central heating have been treated as an integral part of the building and are included within the asset valued. Where the interest held in the property is short leasehold (<50 years), these items have been treated as belonging to the landlord upon reversion of the lease.

Process-related plant/machinery and tenants' fixtures/trade fittings have been excluded from each valuation.

9. INSPECTIONS, AREAS AND DIMENSIONS

We have inspected each property internally, and externally from ground level on dates as specified in each of the Property descriptions below unless specific reference is made to a limited inspection. No measured surveys have been carried out by C&WS&R, we have relied entirely on the site and floor areas and dimensions provided to us by the Company. We have assumed that these are correct and calculated on the appropriate basis, as normally adopted by the local property market. Any reference to the age of buildings are approximate.

10. GENERAL PRINCIPLES

Each valuation is based on the information which has been supplied to us by the Company or which we have obtained in response to our enquiries. We have relied on this information as being correct and complete and on there being no undisclosed matters which would affect each valuation.

In respect of tenants' covenants, whilst we have taken into account information of which we are aware, we have not received a formal report on the financial status of the tenants. We have not been supplied with any information to indicate that there are material arrears or that the tenants are unable to meet their commitments under the leases. Each valuation is on the basis that this is correct. You may wish to obtain further information to verify this.

Where we have reflected development potential in a valuation, we have assumed that all structures at the property will be completed using good quality materials and first class workmanship and that the development scheme will let to tenants who satisfy the tenant mix policy and are of reasonable covenant status and on typical market lease terms.

No allowances have been made for any expenses of realisation arising from a sale or development of each property. Each valuation does not make allowance either for the cost of transferring sale proceeds internationally or elsewhere within the Company, or for any restrictions on doing so. No account has been taken of any leases granted between subsidiaries of the Company, and no allowance has been made for the existence of a mortgage, or similar financial encumbrance on or over each property. Where a grant has been received, no allowance has been made in our valuations for any requirement to repay the grant.

A purchaser of a property is likely to obtain further advice or verification relating to certain matters referred to above before proceeding with a purchase. You should therefore note the conditions on which this Valuation Report has been prepared.

The valuation of each property has been undertaken by the professional(s) idenitifed in the valuation schedule in the Appendix to this report.

We strongly recommend that no disposal of any property should be undertaken without proper exposure to the market. Each valuation assumes that there is an active letting and funding market. This Valuation Report should be read in conjunction with our terms of engagement and in particular our Standard Terms and Conditions of Appointment of Cushman & Wakefield Stiles & Riabokobylko as Valuers.

11. SPECIAL ASSUMPTIONS, RESERVATIONS AND DEPARTURES

We can confirm that each valuation is not made on the basis of any Special Assumptions or any Departures from the Practice Statements contained in the Red Book. Subject to the general limitations of our inspections and sources of information set out above, each valuation is not subject to any specific Reservations in relation to restricted information or property inspection.

12. DISCLOSURE

The members of The Royal Institution of Chartered Surveyors who are named in Section 10 above have not previously been the signatories to the valuations provided to the Company for the same purposes as this Valuation Report. C&W S&R have not previously carried out these valuations for the same purpose as this Valuation Report on behalf of the Company.

C&W S&R have from time to time provided other professional or agency services to the client and have done so for a period of less than 5 years. In relation to the preceding financial year the proportion of the total fees payable by the Company to the total fee income of C&W S&R is less than 5%.

13. AGGREGATE VALUATION

Subject to the foregoing, and based on values current as at 1st January 2006, we are of the opinion that the aggregation of the Market Value of each 100% share of each freehold and leasehold interest in each property, as set out in the appendix, is the total sum of:

US$898,625,000

(Eight Hundred and Ninety Eight Million Six Hundred and Twenty Five Thousand US Dollars)

This valuation figure explicitly excludes the project known as Big City and considered in detail later in the report. That property has been analyzed on a very restrictive set of assumptions and should be considered separately from the valuation as a whole.

Subject to the foregoing, and based on values current as at 1st January 2006, we are of the opinion that the Market Value of the project known as Big City, as set out in the appendix, is the total sum of:

US$460,900,000

(Four Hundred and Sixty Million Nine Hundred Thousand US Dollars)

Subject to the foregoing, and based on values current as at 1st January 2006, we are of the opinion that the Market Value of the whole Portfolio, as set out in the appendix, is the total sum of:

US$1,359,525,000

(One Billion Three Hundred and Fifty Nine Million Fife Hundred and Twenty Five Thousand US Dollars)

The valuation stated above represents the aggregate of the current values attributable to the individual properties and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot. We set out the value ascribed to each property in the appendix.

We have considered an appropriate development commencement date and development period for each property in isolation, based on each property's particular circumstance. Each valuation does not consider any effect of multiple properties being developed concurrently (eg. any resource, expense or savings issues if undertaken by a single developer), or released to the market (occupation or investment) together.

The Summary Valuation Schedule shows our opinion of the appropriate discount rate on an unleveraged basis as used in the Market Valuation for each property. This discount rate is calculated on the assumption that each property would be held for a reasonable period to allows stabilisation of income upon development completion, with the exception of the development of residential property for sale, and that no debt is used (see "Global Assumptions – Debt Assumptions" below).

14. CONFIDENTIALITY

The contents of this Valuation Report are intended to be confidential to the addressees and for the specific purpose stated. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of its contents. Before the Valuation Report or any part of its contents are reproduced or referred to in any document, circular or statement or disclosed orally to a third party, our written approval as to the form and context of such publication or disclosure must first be obtained. For the avoidance of doubt, such approval is required whether or not this firm is referred to by name and whether or not our Valuation Report is combined with others.

Notwithstanding the preceding paragraph, our prior written approval shall not be required for the reproduction and inclusion of this report, in its entirety, in the Sistema Hals Offering Memorandum or for the reproduction and dissemination of this report in its entirety in connection with the Sistema Hals Offering. Where part only of this report is reproduced, included or disseminated, the preceding paragraph will apply.

Yours faithfully

For and on behalf of Cushman & Wakefield Stiles & Riabokobylko

TJ MILLARD MA(Cantab) MRICS
Partner
Head of Advisory Services

K LEBEDEV
Valuation Team Leader
Advisory Services

APPENDIX

VALUATION METHODOLOGY

There are three generally adopted approaches used to value property: *The Sales Comparison Approach; The Income Approach*; and *The Cost Approach*. We have valued the properties using the income approach, taking account of sales comparables where they are available. The cost approach has not been used as this produces a "Non-Market Value" suitable for financial statements relating only to "specialised properties". An overview of The Sales Comparison Approach and The Income Approach and how these relate to the Russian Market, follows.

The Sales Comparison Approach

This method involves analysing all available information on sales of comparable properties that have taken place and making adjustments in the prices achieved to reflect the differences in the properties sold and the property to be valued. This approach hinges on the availability of reliable market evidence of comparable sales. Distinction must be drawn between information that is known to be accurate and reported information that is second hand or at best hearsay. Only information that is known to be accurate can be relied upon with any degree of comfort to provide an accurate valuation.

There are severe difficulties of applying this valuation approach in emerging real estate markets, including Russia, as due to their comparative immaturity the availability of reliable market information is very limited. To reflect this, the International Valuation Standards Committee ("IVSC") (the leading international body for setting valuation standards) devoted a recent White Paper to the study. It identifies specific problems for valuers in emerging markets, which apply very well to Moscow and to Russia – and these problems also tend to inhibit the operation of the market as a whole, in particular as regards investment.

The principal problem is a lack of transparency and a relatively low volume of recorded deals. In mature property markets there is a wealth of information available on completed sales transactions, in the form of yields and total sales prices, and this makes it relatively straight-forward to assess the market value of any property. In Moscow this sort of information is often not available, and where the details of transactions are publicized their accuracy can not always be guaranteed. In addition, a large number of sales transactions in Moscow take place "off-market" and therefore details of them are seldom known beyond those who were party to the deal.

The volume of completed deals is very low in all sectors of the Moscow real estate market. In addition – as outlined above, deal information is rarely reported accurately and is often manipulated for other reasons benefiting the separate parties to any sale deal. Therefore it is often necessary to use offered prices as a basis for assessing the opinion as to value using the sales comparison approach.

The Income Approach

The most commonly used technique for assessing market value within the Income Approach is Discounted Cashflow. This is a financial modelling technique based on explicit assumptions regarding the prospective cashflow to a property or business and the costs associated with being able to generate the income. To this assessed cashflow is applied a market-derived discount rate to establish a present value of the income stream. This Net Present Value ("NPV") is an indication of Market Value[1]. This approach is considered to be the most sophisticated valuation technique, over and above even the Sales Comparison Approach, because it allows differences between comparable sales and the subject property to be explicitly considered and analysed. It is therefore less based on

subjective judgments but objectively on market available information. [2]

For the basis of the current valuations where for the majority of properties consents exist for a specific type of development, the income approach is the most relevant. The residual for properties under development or properties held for future development is the NPV of all future income streams less the NPV of all future costs. The costs include all of the development costs still outstanding in respect of each property and future incomes are assessed based on current returns for completed properties of a similar nature in the market adjusted to reflect the expected completion date for the particular project and anticipated future trends in rents and / or sales prices.

The difficulty in applying this method in the Russian market is assessing the correct market derived discount rate, due to the very small number of transactions, the lack of transparency in the reporting of information and in the wide variations in returns required on projects from different investors.

The costs and incomes associated with the project have been assessed on the basis of standard construction costs in the market together with property or project specific information provided by the developer and current market returns adjusted to reflect anticipated future trends.

In order to assess the residual valuation of the land a discount rate has to be applied to the projected cashflows. The discount rate is market derived and reflects the minimum returns a typical investor would require to undertake a project of this type. This approach then provides the maximum value that an investor would be willing to pay for the land in its current condition, being the Net Present Value of all identified future costs and incomes at the necessary rate of return.

In the Moscow market this approach specifically excludes the use of debt and the effect of leverage. The availability of debt, and on what terms, varies widely from investor to investor, and there is no market standard – especially in a comparatively immature debt market such as Moscow. Pre-debt discount and capitalization rates are therefore used to represent the risk-return requirement of investors.

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[1] International Valuation Standards Sixth Edition – Guidance Note 9
[2] Internatinal Valuation Standards Committee Newsletter - Global Valuation Issues (Sept. 2003)

The Cost Approach

Under IVS this approach is relevant to specialised properties (i.e. properties that are rarely if ever sold on the open market … due to their uniqueness which arises from their specialised nature and design of the buildings, their configuration, size, location or otherwise) and Limited Market Property (i.e. properties that because of market conditions, unique features, or other factors attract relatively few buyers).

GLOBAL ASSUMPTIONS

For those properties "held for development" or "in the course of development", some general assumptions have been made in developing the residual valuations, in addition to the assumptions and conditions above.

These are summarised below:

Acquisition Cost:	The properties are currently owned. However an acquisition cost is assumed in the modelling process. The properties are assumed to be held freehold. Therefore the assumed purchase price is correctly treated on the balance sheet so that all of the property tax, depreciation and other tax issues can be correctly identified. See below;
Development Proposals	It has been assumed where project documentation exists that any development would conform to the overall sizes as provided to us unless it is reasonable to assume that development could take place in some other form. For each MGTS property it has been assumed that it is only possible to convert the existing buildings (with the exception of two specific properties) and that the building sizes will therefore remain the same. It has been assumed that the ongoing space requirements for housing the digital phone exchanges as supplied to us are accurate;
Utilities & Road Improvement	In Russia the cost of providing utilities and executing necessary road improvements can vary widely. Where utilities need to be provided or road works executed it has been assumed that the cost estimates supplied to us are accurate;
Construction Phasing	All projects, unless specifically stated otherwise, have been assumed to be constructed in one phase. Due to the size of the NIIDAR project it has been assumed that it would be phased and that the phasing would be designed to maximise the returns from the site;
Construction Costs	Construction costs have been assessed in accordance with standard rates in the market that a third party developer / purchaser would expect to have to pay in the course of the development of each project. In some cases these costs

differ in their general level from the anticipated construction costs as provided by the Company;

Construction Contract

An advance payment is included in the cost calculations, which is charged to the first quarter of the construction contract. A hold-back against defects requiring remedy is also included and is charged to the quarter after completion of construction of the relevant phase;

Permit & Design Costs

Where there are outstanding permitting costs these have been assessed in line with the anticipated numbers as supplied by the client as, once again, there can be a wide variation in the permitting costs. Design costs – where appropriate have been assessed in line with market standards;

Assumed Sale

In order to assess the capital value of a completed development, we have assumed that a property is to be held upon completion for a period until the net income stabilizes, and thereafter is sold. This is a valuation technique and does not necessarily represent the intention of the owner;

Returns

Rental rates for commercial office spaces have been projected together with capitalization rates, for the period of the cashflow. Sales prices for residential developments have been assessed for the reasonably expected completion dates; These figures are based on research carried out by *Cushman & Wakefield Stiles & Riabokobylko* and market information. In respect of commercial rents they are exclusive of operating expenses and VAT and have been assessed on a conservative projection of future market movements (see *market analysis* above). They therefore provide realistic minimum figures that it is anticipated can be achieved;

Market Capitalization rates have been projected based on the assessment that the property investment market for the Moscow and Moscow region will become more sophisticated over the period and that the number of active investors will increase. It is therefore anticipated that the changes in market yields will reflect the experiences in other Eastern European countries where the property investment environment is already more mature such as Poland and the Czech Republic and that there will be a yield compression over time;

Review / Renewal Period

This is the length of the initial leases. The rents for the initial leases remain fixed for their entire term and the rent during this period will depend upon the prevailing market rental rate in the year of completion. The assumed length of initial leases varies depending upon the property class – office leases are typically 5 years and retail leases are typically 3 to 5 years;

Vacancy Rate

Vacancy has been assumed for the duration of each project and depends upon the property class and the relative merits of each anticipated project;

Operating Expenses

For commercial properties these are assumed to be paid by the tenant at cost, and they are therefore cashflow and VAT neutral and they are not included in the cashflow analysis. For residential properties it is also assumed that operating expenses will be passed through to residents in the form of a service charge or similar;

Security Deposit

It is common for tenants to pay security deposits in the Russian market which are held interest free by the Landlord and offset against the last relevant period of the lease. Standard levels of Security Deposit have been assumed for different property classes. These deposits are treated as financing cashflow and will be off-settable against the final relevant period of each lease;

Debt Assumptions

In assessing the Market Value of property it has been assumed that no debt is used. There are wide variations as to the financing terms available in the as yet immature Russian property finance market and it is not therefore possible to apply standard terms. Therefore unleveraged yields are used to provide a consistent approach;

VAT Rate

The VAT rate has been taken at the current rate of 18% introduced at the beginning of 2004. The VAT rate is of importance because although in theory VAT in Russia is immediately recoverable from the government the practice is slightly different. The VAT paid on construction and other development costs is considered a VAT credit account in favour of the landowner. VAT on future rents can be retained and offset against the VAT account until it is zeroed out. This has a significant effect on cashflow. For the purchase of existing properties VAT is payable in respect of that part of the purchase price apportioned to building improvements. VAT is not payable in respect of the part (or whole) of the purchase price that relates to the land plot (or land lease).

It has been assumed that all of the costs in association with the development of the project will be subject to

VAT and also that all of the tenants (where appropriate) will be VAT paying. Where applicable the current VAT credit account has been taken into account – depending upon the tenure of the property. I.e. freehold property sales are subject to VAT, but sales of shares in a company are not. For the purposes of this valuation all properties have been assessed on a freehold basis as opposed to the existence of any SPVs;

VAT Inflation Loss

The VAT credit account is ruble denominated whereas rents are receivable in dollars. A factor is used to take account of annual losses to the VAT credit account balance, which is non-interest bearing, due to inflation and exchange rate movements;

Cash Reserve

A contingency account against future capital expenditures is a prudent measure. Contributions to this cash reserve have been set depending on the different criteria of each proposed development;

Agent's & Brokers Fees

Standard market practice is to use brokers to lease commercial space. This has been taken into account;

Depreciation

Assessed over 30 years on a straight line basis, in line with local regulations excluding that part of the balance sheet value that relates to the underlying land value. The type of tenure affects the annual depreciation and will therefore affect the level of costs which are deductible for profit tax purposes. A sale of a freehold property results in the property being held on the balance sheet at the transaction value and usually results in a higher level of depreciation and therefore a higher level of tax deductible costs, potentially increasing income. Where a property is held in a Special Purpose Vehicle (SPV) any sale of the shares will not affect the value of the property on the balance sheet (usually the existing depreciated construction cost) and this will ordinarily result in a lower level of depreciation. As outlined above, all of the properties in this report have been valued on the basis of a freehold sale;

Taxes

Similarly property tax is payable on the book value of any property, excluding that part that relates to the underlying land value, currently at 2.2% and the nature of the tenure will affect the overall level of property tax payable. There may also be affects on the level of other taxes payable due to the type of tenure. All of these factors have been taken into account.

COMMERCIAL PROPERTY MARKET OVERVIEW

Key trends

- Russia takes second place in the list of countries with fastest growing GDP over last 5 years;
- Retail trade growth rate exceeds income growth rate;
- The office market is growing in quality and quantity. Average lease terms are getting longer with large, new, quality office buildings hitting the market in 2005 (many owners now offer a 7 - year term);
- The retail market is growing steadily;
- Large scale warehouse projects started to emerge with major deals being closed. (80 million USD pre-lease closed at Pushkino Logistics Park);
- Citigroup bought a blocking stake in National Logistic Company (NLC) for $37.5 million.

Market Indicators

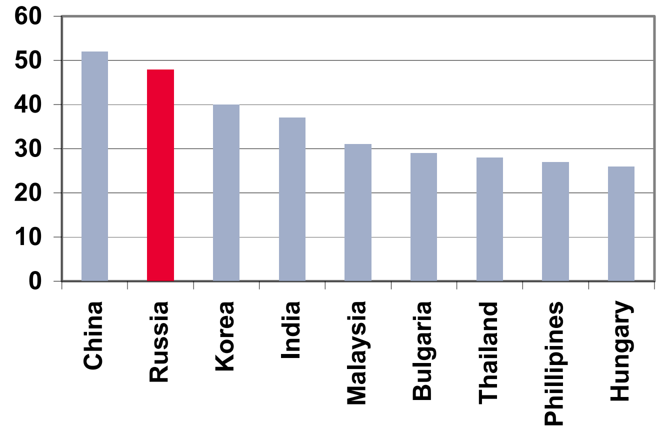
	Office	Retail	Industrial
Stocks, thousand sq.m	4,461	1,494	1,763
Rental rates (Class A), US $ / sq.m /pa, NNN	639	1144	110-140
Vacancy rates	4.53%	0.63%	0-6%
Yields	12%	12-17%	13-17%
Market	Stable	Stable	Stable

ECONOMIC TRENDS

GDP

The economic situation in Russia remains stable. Despite the forecasted decline in GDP growth rates in 2005, the main budget-forming sectors are showing positive results. The surplus of the federal budget is ahead of all the most optimistic estimations and has reached the sum of approximately $47 billion over the period of January-August 2005. The budget project for 2006 estimates the surplus to reach about $28 billion.

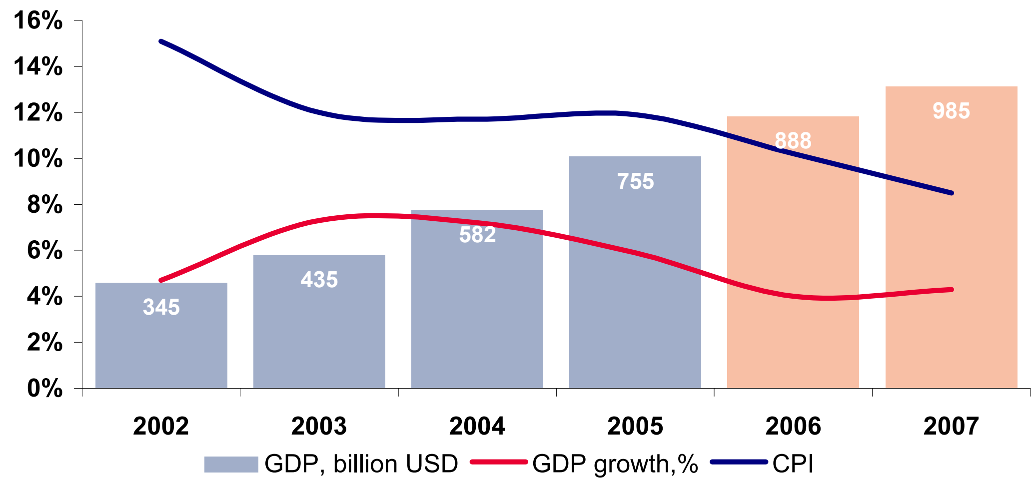
5-year GDP growth in most rapidly developing countries



Source: Aton, 2005

Russia took the second place in the list of the most rapidly developing economies over the last five years.

GDP, GDP growth (%), CPI



Source: Rosstat

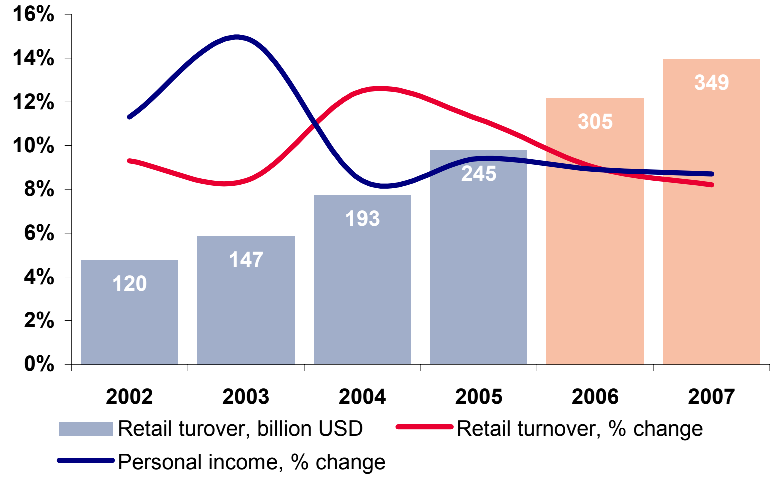
Despite a favourable economic business environment, the CPI remains at a high level in Russia. Both the growth of natural monopoly tariffs and that of municipal servicing costs have accelerated the growth of the CPI in 2005. The inflation level in 2005 is estimated at 11.9%.

Retail trade

The dynamic development of the country's economy, stimulate retail turnover growth (as well as the development of consumer lending). Retail turnover has doubled in Russia over the past three years, with growth rates being ahead of the population's income growth rates since 2004. This indicates that the population's consumer activity is edging up. Private savings are still non-characteristic of the country's population. That being said, retail turnover is increasing together with the enlargement of the range of goods and the increase of the non-food segment.

Expenses on entertainment, as well as on services, grown in the structure of overall household expenditures. Over the past 5 years household expenses on entertainment have increased by 11 times.

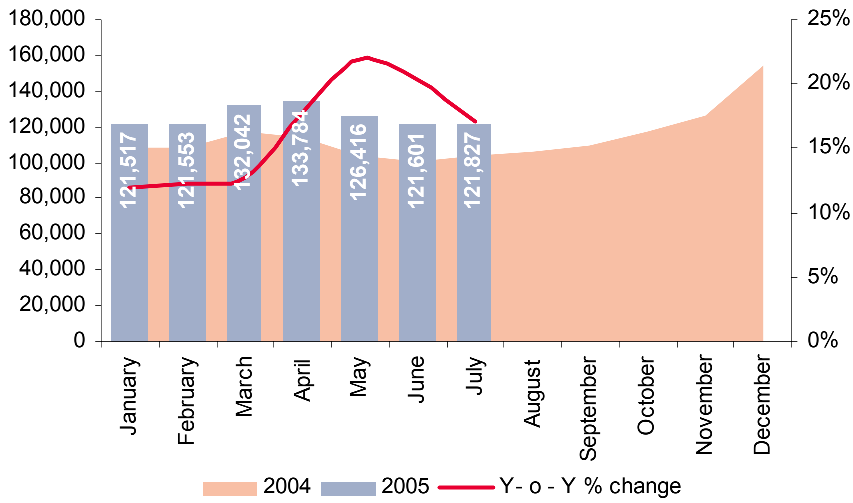
Retail turnover, retail turnover (%), personal income in Russia



Source: Ministry of Economics

The highest activity levels were shown by the retail sector in Moscow, where retail turnover grew by 16% over the period of January-July.

Retail turnover in Moscow over 2004 - 2005



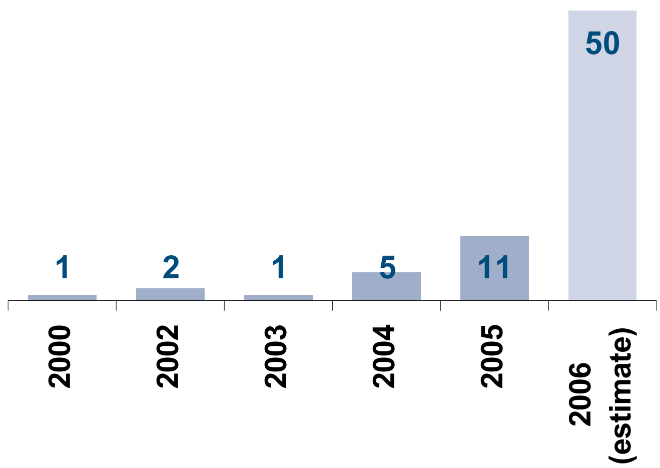
Source: Moscow Government

The Central Administrative district of the capital is predominant in the retail sphere, taking up 45% of the overall retail turnover of the city. The least active trade areas are in the Western, Eastern, Southern and North-Western districts, taking up not more than 5% each.

The attractiveness of the retail sector has substantially attracted investors; the shares of two retail chains (Sedmoy Kontinent and Pyaterochka) are now traded as some of the most attractive assets. Financial analysts are forecasting a further strengthening of the position of these companies' shares.

In 2005 the number of companies performing an initial public offering has doubled in comparison with the previous year. For 2006 more than 50 Russian companies plan to do IPOs.

Number of IPOs performed by Russian companies

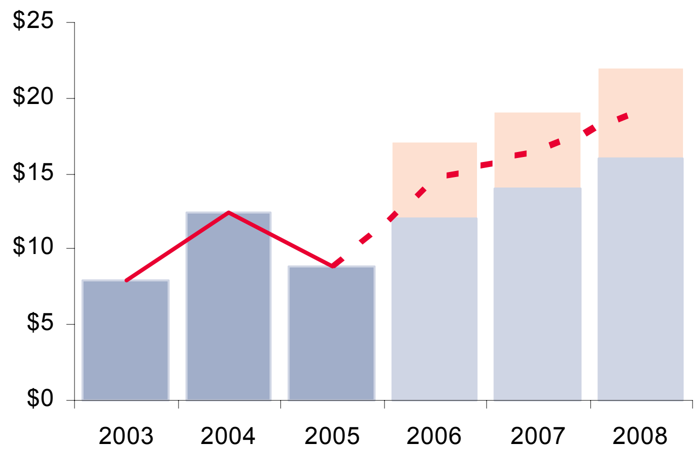


Source: Newsweek

Foreign investments

Preliminary estimates of the total volume of foreign investments issued by the Ministry of Economics is not optimistic as in 2005 foreign investments are expected to decline by 29% against 2004. However foreign investments are likely to recover in 2006.

Historical and expected (2 scenarios) foreign investments to Russia, billion USD.



Source: Ministry of Economics

OFFICE MARKET

Rental rates	↔
Take up	↔
New Construction	↓
Vacancy Rates	↑

Key indicators

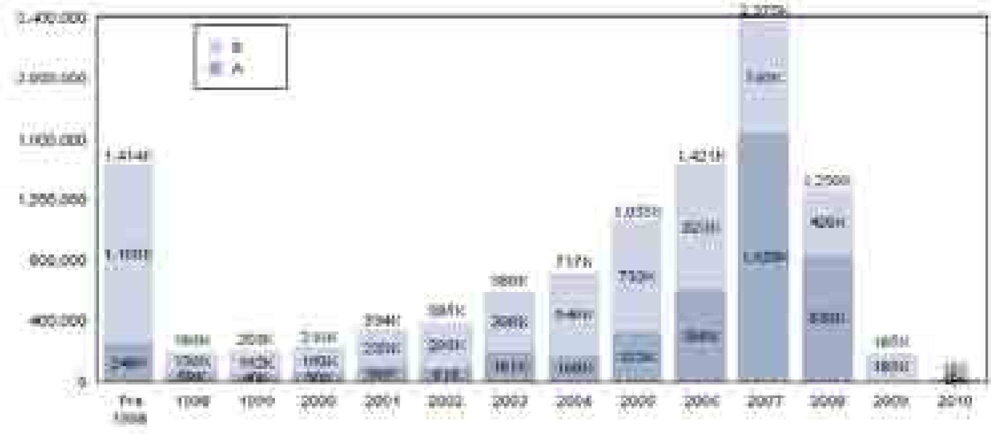
Indicator	Q3 2005	Q3 2004	+/- %
Take up, K sq.m	242	225	+9
Rental rate (Class A) USD/sq.m pa, NNN	$639	$585	+9
Sale price USD/sq.m rentable	$2 247	$2 900	-22
New construction, K sq.m	93	78	+18.5
Stocks as of September 30th, K sq.m	4 461	3 768	+18

The office market was relatively stable over the 3rd quarter of 2005. There were continued evidence of a slow down in the growth of rental rates during the period.

Supply

As a result of properties downgrading the stock of quality office space was reviewed downword during July – September total quality office stock reached 4,461,000 square metres showing growth of 2.2% from the 2nd quarter. About 93,000 sq.m of newly constructed and reconstructed international quality office space appeared during the 3rd quarter. It is 51% down from the previous period and 18.5% up in comparison with the same quarter in 2004. The main reasons for the flow down were delays in construction and in state commissioning. There were small amounts of Class B projects and no Class A delivered on the market during the 3rd quarter. Most projects were postponed to the end of 2005-beginning 2006. But the estimates for the whole year are still positive with new construction for 2005 to reach more than 1 million square metres.

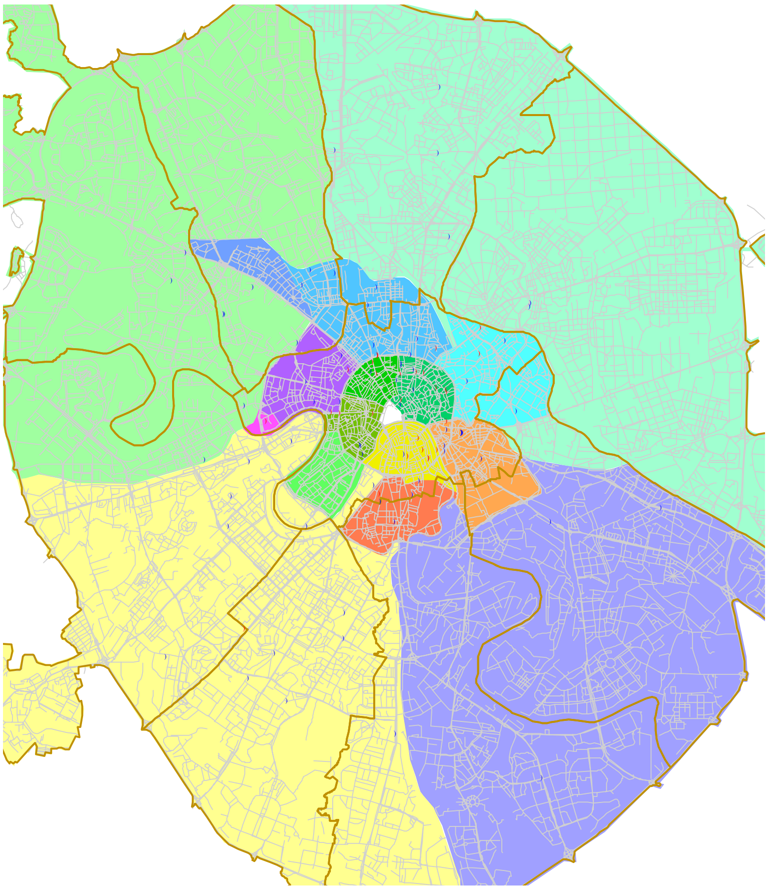
Historical and projected new construction



Source: Cushman & Wakefield Stiles & Riabokobylko Research

In 2006 the majority of new office centers will appear in the city center, however the number of the projects located outside the Third Ring Road is growing.

Buildings to be delivered in 2006 A class (red) and B class (blue)



Major office projects delivered in Q3 2005				
Project Name	Address	Office rentable, sq.m	Sub-market	Class
Science & Technology Park, str.1	Volokolamsky 1st pr., 10, str.1	19,855	OTA	B
Avia Plaza	Aviamotornaya ul., 10	13,600	BAS	B
Karacharovo Business Center	Ryazansky pr., 2	12,900	OTA	B
Office Center on Nagatinskaya	Nagatinskaya ul., 1, bld. 29	6,300	OTA	B
Gazetny per., 13-15	Gazetny per., 13/15	4,655	CBD	B
Calibre Office Project	Godovikova ul. 9	4,000	OTA	B
Technopark Orbita	Kulakova ul., 20	3,470	OTA	B

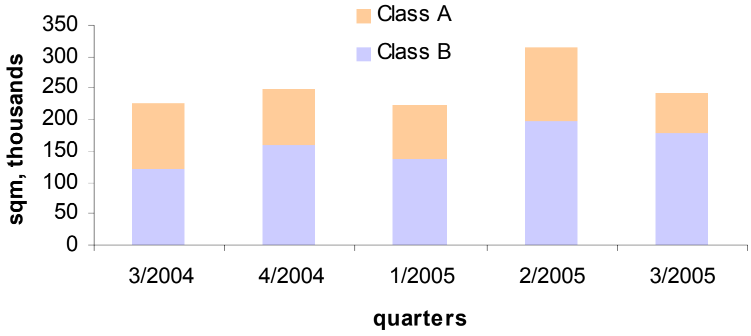
Major office projects delivered in Q3 2005				
Major office projects to be delivered in 2005				
Project Name	Address	Office rentable, sq.m	Sub-market	Class
Pollars BC	Derbenevskaya ul.,11	45,000	SCH	B
Naberezhnaya Tower, Building B	Krasnopresnenskaya nab., 18 (site 10)	29,800	CTY	A
Krylatsky Hills Business Park (Building C, D)	Krylatskaya ul, 19	29,350	OTA	A
Nauchny proezd	Nauchny proezd, 6	26,500	OTA	B
Severnoe Siyanie	Pravdy ul., 24	26,000	NOV	A
Gorky Park Tower	Leninsky prosp., 13-15	22,850	SCH	A
Tupolev Tower	Radio ul., 24	20,121	BAS	A
Borodino Office-Hotel Complex	Rusakovskaya ul, 13	19,970	BAS	A
Business Park Krylatsky Hills, Building B	Krylatskaya ul., 19	15,512	OTA	A
Avrora Business Park II (Buildings D)	Sadovnicheskaya ul.,82, Build. D	7,700	ZAM	A
Znamenka Project Phase I	Znamenka ul., 3 Building 1	6,600	CBD	A
Sokol Center	Leningradsky prosp., 74A	3,120	SOK	A

Demand

The total volume of leased and sold Class A and B office space was 23% lower than in previous period reaching about 242 thousand square metres in the 3rd quarter of 2005. Take-up decrease is explained by the reduction in tenants activity during the summer and the beginning of autumn period and delays of the projects delivery.

Class A take-up decreased from the second quarter by 46% to 63,000 sq.m and Class B by 9% to 179,000 sq.m.

Take-up trend (A&B)



Source: Cushman & Wakefield
Stiles & Riabokobylko Research

The major driver of demand are:

- Need to expand
- Willing to move to high quality space
- Newcomers

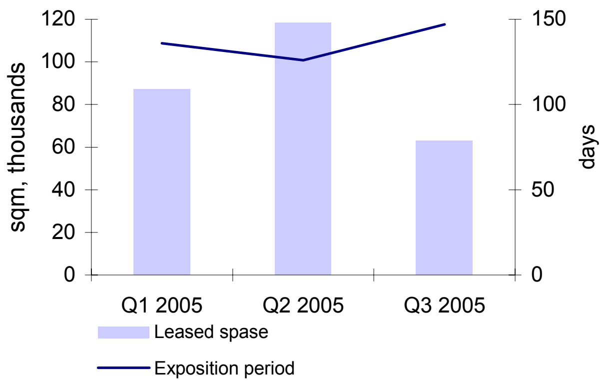
Exposition period.

By exposition period we assume the period of time between the start of premisses marketing and transaction date.

The exposition period for leased and sold Class A premisses in Q3 composed 147 days in average while B class premisses were averagely exposed during 99 days.

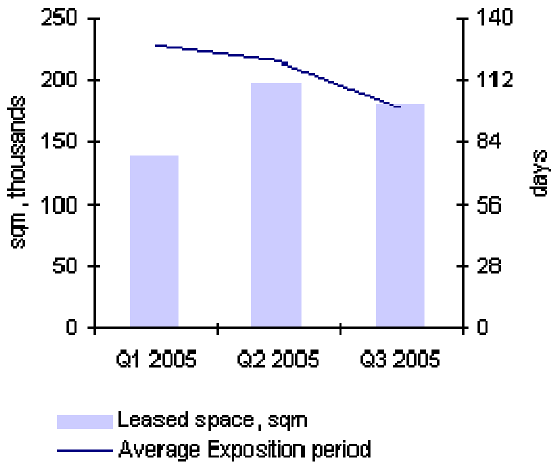
Class A exposition period

Average exposition period for class A premises starts long before projects' completion due to early marketing programm.



Class B exposition period

Average exposition period for B class premises goes down because of shorter marketing programs.

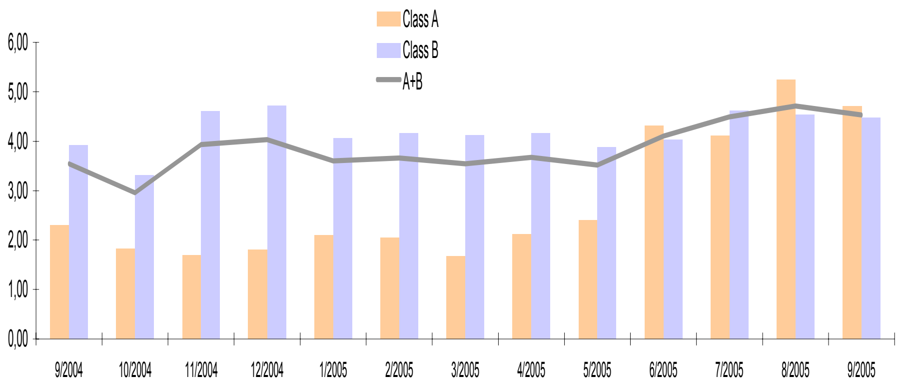


Source: Cushman & Wakefield Stiles & Riabokobylko Research

Vacancy rates

The amount of vacant office space grew by 11% over the period. Average vacancy rate across Moscow was in the range from 4.49 to 4.53% (Class A at 4.71% , class B at 4.47) in this quarter.

Average vacancy rates for A and B Class



Source: Cushman & Wakefield Stiles & Riabokobylko Research

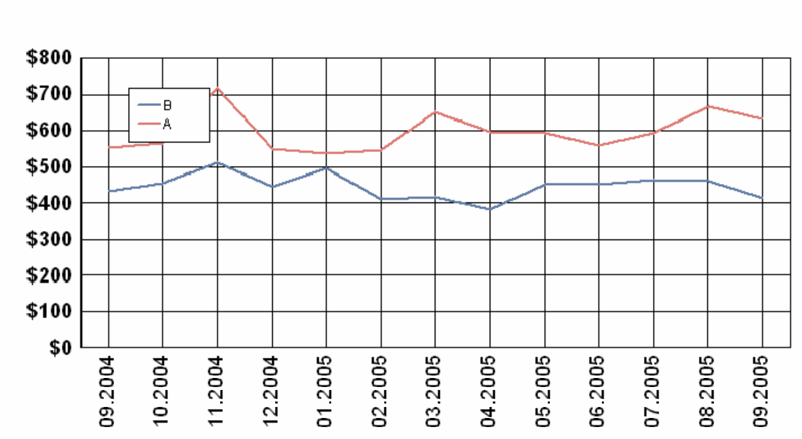
Rental rates and lease terms

Average rental rates for Class A premises in all submarkets increased by 9% to $639 and for Class B by 7% to $447 per sq.m compared to Q2 2005.

Net annual rental rates per square metre reflect building competitiveness, depending on location and the building's quality. As for the center of Moscow (Central Business Distric and Zamoskvorechie) average rental rates range between $650 and $760 for Class A and $497-$620 for Class B. Average Class B rental rates in Other Trade Areas vary from $275 to $400 per sq.m per year.

The main driven of rental increae is the increase in quality of the offering.

Rental Rates for Class A & B office space by month



Source: Cushman & Wakefield Stiles & Riabokobylko Research

It could be note that rental rates could vary in some cases for different floors within a single building. Higher floors in such cases typically command a premium. Rates are quoted in US Dollars per square metre per year and are payable in rubles. Rental rates are subject to VAT (18%). Some representative offices of foreign companies are exempt from VAT on rent payments. Most developers require VAT income from all tenants for newly built properties.

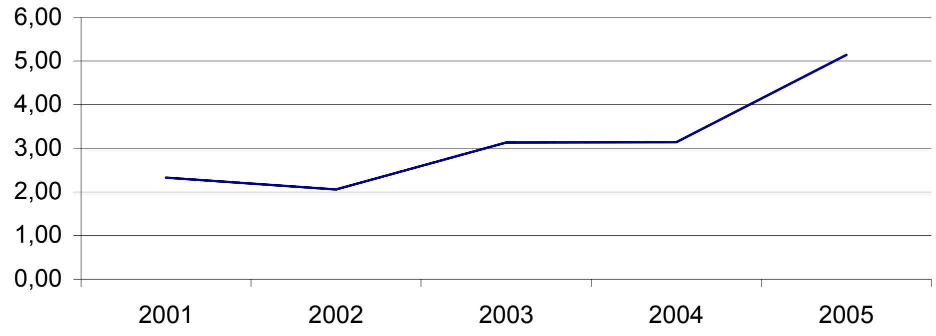
Annual operating expenses per square metre depend on building quality and selection of management company and range as follows:

Class A	$80 - $100
Class B	$60 - $80

Despite the tight market, landlords continue to offer a standard fit-out package or compensation for fit-out ranging between $100 and $250 per square metre as an incentive to tenants. Rental prepayments average one to three months rent. Non-interest bearing security deposits range from one to three months rent. Typically rent is paid quarterly in advance.

As usual standard lease terms were between 3 and 5 years, many owners start now offering 7-10 year term for larger or unique properties. Major tanants are willing to discuss even longer terms.

Average Lease terms in years (weighted by sqm of executed deals)



Source: Cushman & Wakefield Stiles & Riabokobylko Research

In order to prevent erosion of income due to inflation in Moscow transactions where most deals are dollar-denominated, landlords ask for indexation linked to US -CPI (consumer price index) which is a government provided statistic. It is correct to index rents to US CPI because even though we are in Russia, dollar inflation is measured in the US. This indexation is currently between 1 and 2% per year, so it is quite low. Often owners agree to a fixed percentage for rental escalation - usually around 2-3% and currently not earlier than 3rd or 4th year of the lease. Indexation has nothing to do with exchange rates however it is common for owners to mix these two issues.

One of the major deals of the Moscow market happened this quarter with a base agreement for 11,000 square metres by Raiffeisen Bank in Gorky Park Tower. We should see more and more of those big deals happen in the next 2 - 3 years as large companies consolidate their office and anticipate further growth.

Building sales

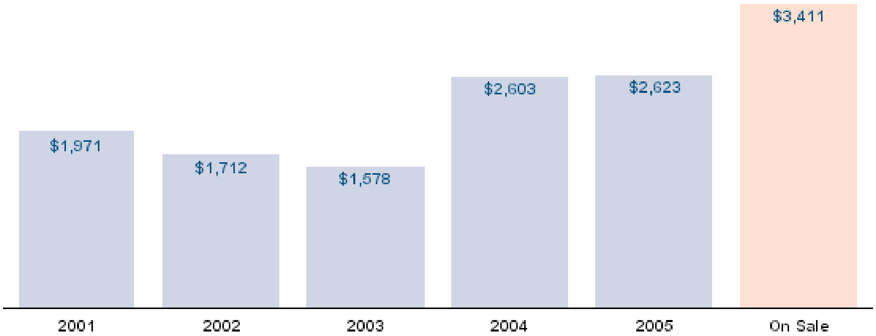
Non-investment sales

In the 3rd quarter of 2005 there were about 10 office building sales, accounting for more than 47 thousand sq.m of office space in total. Few of them were sold on the construction stage and will be finished in Q4 2005 and Q1 2006. Currently there are more than 31offers for sale for a total of 152 thousand square metres of Class A and B office space.

Average sale prices for Class A and B buildings across Moscow reached 2,260 $/sq.m that is 6.9% lower than in the same quarter of 2004 and 30% less in comparison to Q2 2005.

Sales price however is highly volatile.

Average Sale prices



Source: Cushman & Wakefield Stiles & Riabokobylko Research

RETAIL MARKET

Rental rates in shopping centers – stable

Street retail rental rates – growth

Vacancy rates in shopping centers – stable

Street retail vacancy rates – growth

New construction - growth

The Moscow retail market continued its active development in the third quarter of 2005. International, as well as Russian developers have invested massively into retail development and the level of professionalism of retailers and developers is growing on a consistent basis.

Shopping centers supply

Three shopping centers and two big box retailers were opened in Moscow in the third quarter of 2005 – Dream House, totalling 8, 523 sq.m of GLA, anchored by Azbuka Vkusa, Mall Gallery (Real Brateevo), totalling 29, 000 sq.m of GLA and Gymeney, which were opened after the reconstruction with totalling 4, 650 sq.m of GLA, Ikea opened its 5 store in Russia – in the Moscow district Kotelniki town (IKEA Belaya Dacha) with a total of 29,500 sq.m of space and Metro Cash&Carry opened its 7 store in Moscow on 2-Likovskaya street with total shopping area of 8,800 sq.m.

Shopping Centers delivered in 3Q 2005

Property name	Submarket	GLA, sq.m
Dream House	NW	8,523
Mall Gallery-Real Brateevo	SE	29,000
Gymeney	CBD	4,650

Some formats are not yet present in Moscow and Russia. For example, factory outlet centers. By the end of 2005, the first Retail Park should opened in the East of Moscow, totalling 47,500 sq.m.

Shopping centers demand

The growth of demand for quality shopping centers still increased. The vacancy rate in most popular and quality projects stayed close to zero. The minimum tenant rotation was 1-2% in the quality shopping centers with a strong concept and good location, in the others, rotation was higher. The range of vacancy rates in quality shopping cenetrs in the third quarter was from 0.78% in July to 0.61% in September.

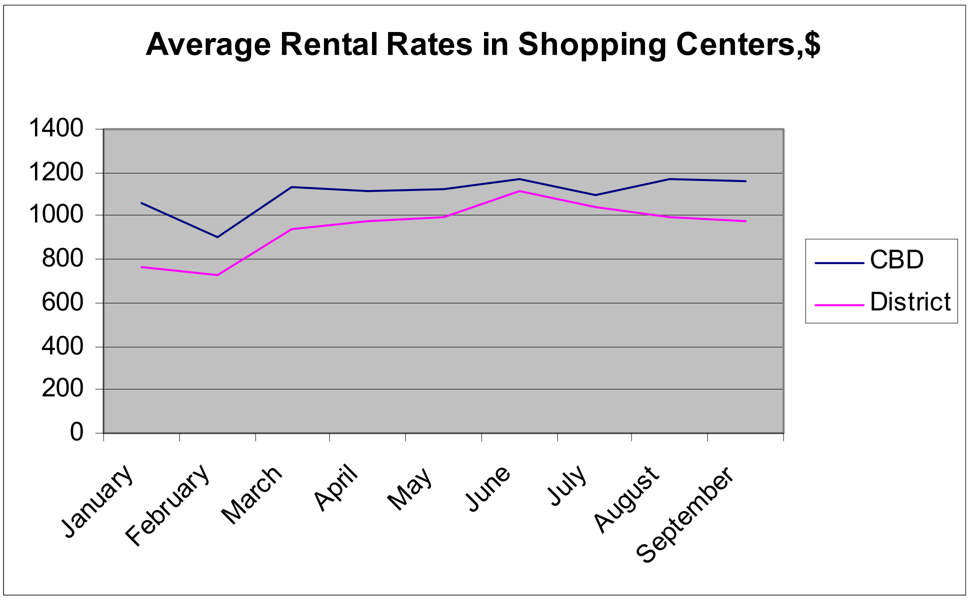
Source: Cushman & Wakefield Stiles & Riabokobylko Research

CUSHMAN & WAKEFIELD STILES & RIABOKOBYLKO

Rental rates

Rental rates in the Central Business District (CBD) stay at a high level. Rental rates in shopping centers, located in the CBD increased in comparison with 2Q 2005 - 1,167$ in June compared to 1, 174$ in August. A decline of rental rates was recorded in July. This resulted from growth of average vacancy rate.

Average rental rates in Shopping centers, USD/sq.m

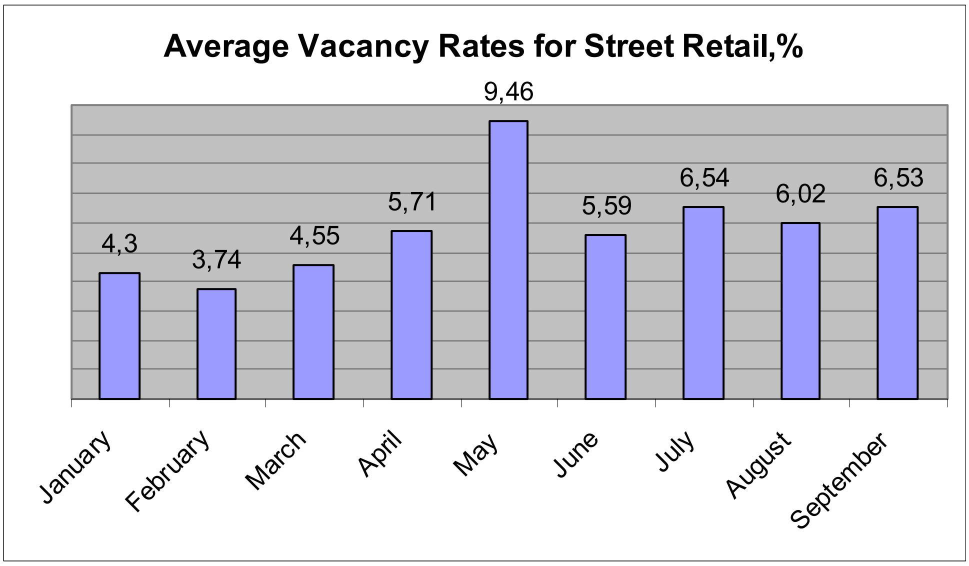


Source: Cushman & Wakefield Stiles & Riabokobylko Research

High street retail

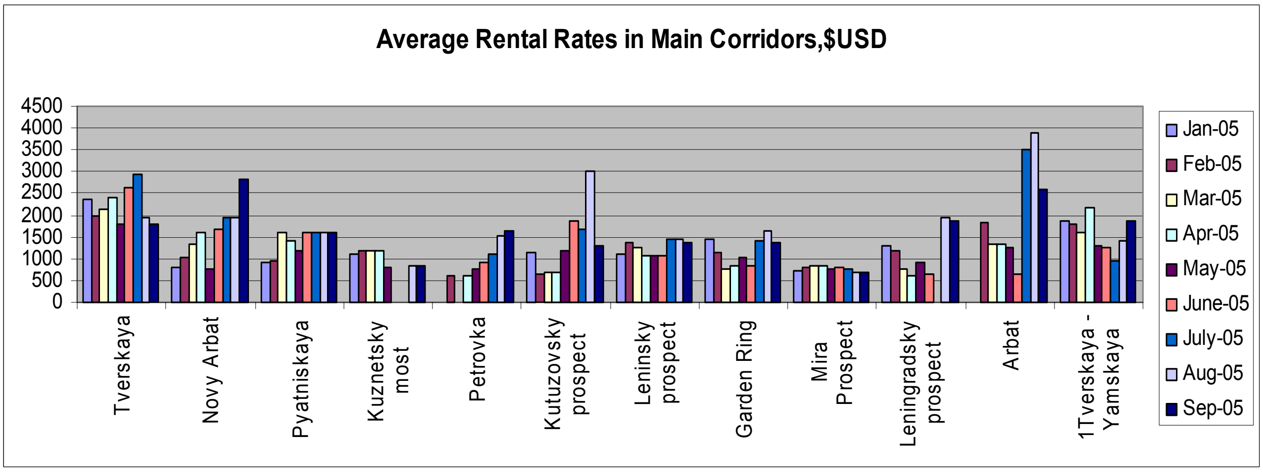
Despite space restrictions, the existing stock in those prime retail corridors increased in comparison with the second quarter of 2005 and reached 347,000 sq.m. This growth was caused by transformation of first floors of some residential buildings into retail stores. The average vacancy rate in prime retail corridors was from 6.02% to 6.54% in the third quarter of 2005.

The vacancy rate increased to 6.53% in September from 5.59% in June.



Source: Cushman & Wakefield Stiles & Riabokobylko Research

The average rental rates in prime retail corridors increased by 26.3% in September compared to June and reached 1, 591$ psm pa. On the whole the average rental rate in the third quarter stood at 1, 633$ psm pa that is more by 35.2% than in the first quarter of 2005.



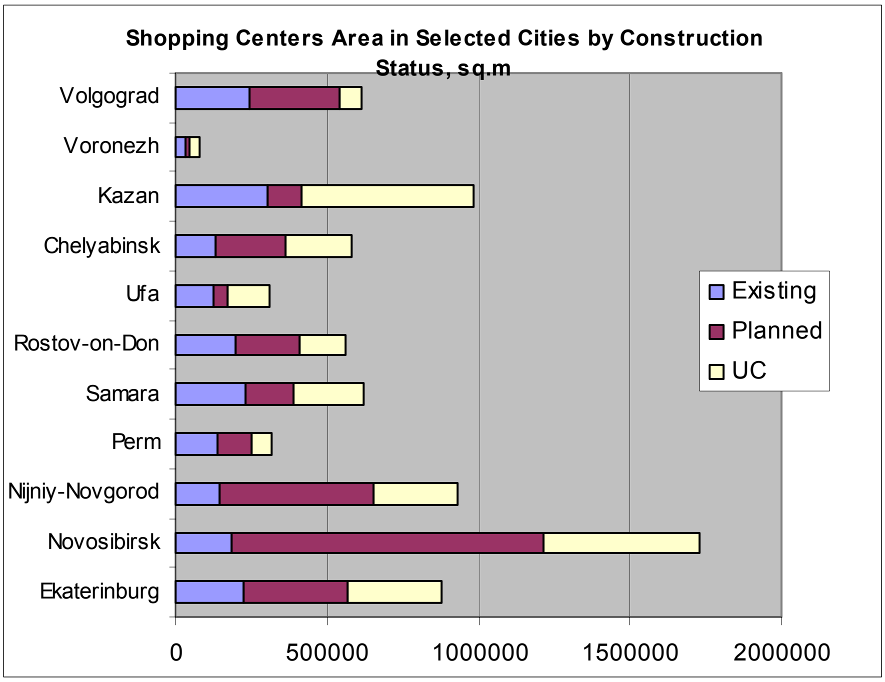
Source: Cushman & Wakefield Stiles & Riabokobylko Research

Regional retail

Expansion into the regions continued at a higher pace. We saw not only interested retailers but also interested developers, willing to move to smaller cities.

The regions are developing, but supply of quality shopping centers stayed at low levels compared to Moscow. In some cities tenants wait for quality shopping centers with a strong concept to be developed.

The largest total stock of all existing shopping centers (1, 068, 474 sq.m) was registered in Saint-Petersburg where the retail market develop year by year and shows impressive results. In the second place we can see Kazan where total stock of all shopping centers was 304, 228 sq.m.



Source: Cushman & Wakefield Stiles & Riabokobylko Research

The most significant shopping centers

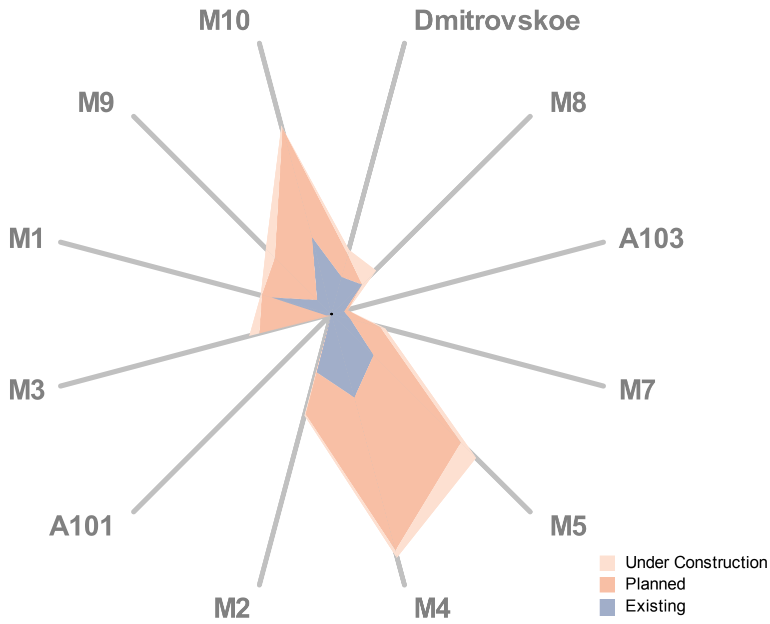
A Mega project, developed by IKEA should open in Kazan by the end of 2005, totalling 100, 000 sq. m of GLA. Ikea plan to continue its expansion into Ekaterinburg, Nijniy Novgorod and Saint-Petersburg. Also in Saint-Petersburg will be opened a new entertainment shopping center Grand-Canyon, totalling 50, 000 sq.m of GLA, anchored by M-Video, Ramstore, Cinema-Park and Stockman The company "Vremya" developer of Park House opened a shopping center in Ekaterinburg, totalling 34, 000 sq.m of GLA anchored by Grossmart, Sportmaster, Tehnosila, Starik Hotabich. The shopping center Tandem, developed by Tandem should opened in Kazan be the end of the year, totalling 43, 000 sq.m of GLA, anchored by Eldorado, Perekrestok, Kinomax with a parking for 1, 300 slots.

INDUSTRIAL MARKET

Delivery and Supply

The warehouse market was relatively active in terms of speculative construction over Q3 2005. However new construction has not been rising at a similar level in different geographical directions. New construction is at a fair level on MKAD close to Gorkovskoe highway M7 and within 10 km distance from MKAD on Novoryazanskoe highway M5, Novorizhskoe highway M9 and Kashirskoe highway M4. It is at a modest level between 10 to 30 km distance on Yaroslavskoe highway M8, Kievskoe highway M3. New construction is at a modest to low level in east, north-east directions beyond 30 km distance.

Active development locations

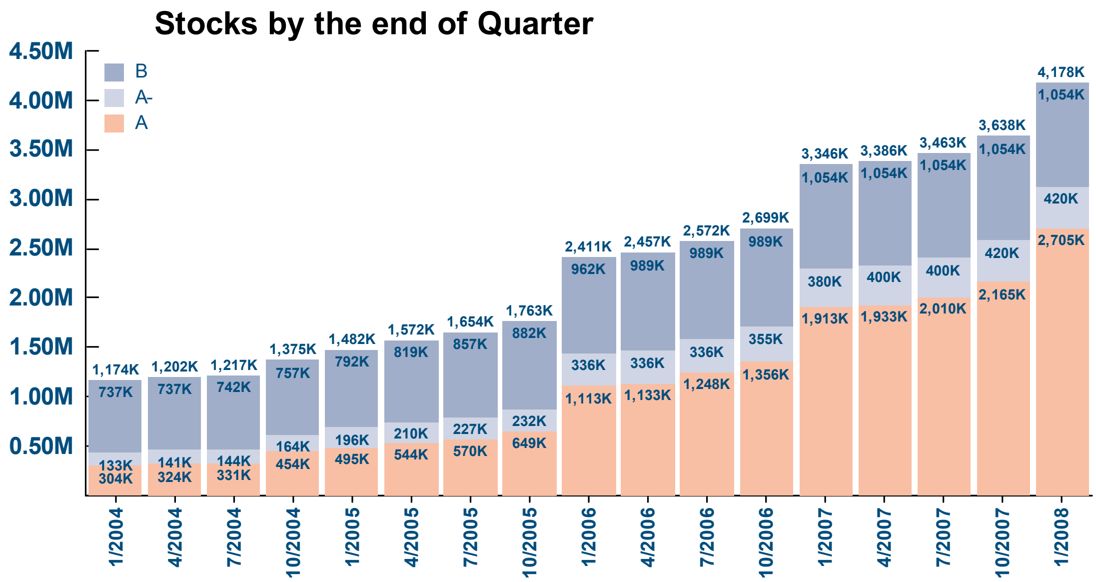


Source: Cushman & Wakefield Stiles & Riabokobylko Research

Most attractive highways in terms of warehouse development are: M4, M5, M10, M3, M8 & M2.

The total area of existing class "A", "A-" and "B" warehouses on the market in Moscow and the Moscow region has reached approximately 1.7 million sq m, 50% of which are for class "A" and "A-" premises. If the construction activity of the market keeps same pace by the end of 2005 the total stocks of A, A- & B class warehouses will reach approx. 2.4 mln sq m. Class C stock remains practically unchanged. Changes in Class C segment are of qualitative nature rather then quantitative, e.g. redevelopment of the old C class warehouse facilities into Class B. However the fact of redevelopment does not impact the total warehouse stock of the Moscow Region.

Historical and projected new construction



Source: Cushman & Wakefield Stiles & Riabokobylko Research

Most of the projects announced since July 2005 were either postponed to the end of 2005-beginning 2006 or comprise of several phases. Some of the projects or phases were delivered in Q3 2005.

Property Name	Type*	Location	Address	Gross Area, sq m	Compaletion Date	Owner	Asking rental rate (USD, triple net)	Status**
BEL Development	O/W	S	Moscow Region, Vidnoe Kashirskoe shosse, 6 km	**25,464**	December 2005	Bazovy Element Holding	110	E
Belaya Dacha Market	O/W	S	Novoryazanskoe highway M5, 5 km from MKAD	**56,000**	2004-2005	Belaya Dacha	n/a	E
Krekshino Logistic Park	O/W	W	Minskoe shosse M3, 20 km from MKAD	**65,000+60,000**	2006-2007	RosEuroGroup	115-125	UC
Kulon Baltia	O/W	N	143420, Moscow Region, Krasnogorsky district, p/o Arkhangelskoe, a/m Baltia, 25th km	**27,300**	Q42005	ZAO Kulon	135	UC
Kulon Istra	IP	N	Novorizhskoe highway, 57 km from Moscow centre	**150,000**	2008	ZAO Kulon	tbd	UC
Leningradsky Terminal MLP	O/W	N	Leningradskoe highway, 13 km from MKAD	**200000; 50,000 (Phase 1)**	2006	MLP	130	UC
Lvovsky Terminal	O/W	S	Intersection of A107 and Simferopolskoe highway	**44,500**	2005-2006	KS-Development	130	UC
Northpoint Distribution Park	O/W	N	Altufievskoe highway, 700 m from MKAD	**88,000**	2006	JV AIG/Lincoln/RKK Development	tbd	P
Novokosinsky Terminal	O/W	E	Nosovihinskoe highway, 2 km from MKAD	**18,573**	Q42005	Krona-Market OOO	145	UC
PNK-2 Moscow	O/W	N	Dmitrovskoe highway, 16 km from MKAD	**44,000**	2005-2006	PNK Logistik	120	UC
Pushkino Logistics Park	O/W	N	Yaroslavskoe highway, 15 km from the MKAD	**211000; 70,333 (Phase 1)**	Q32005-2008	JV Capital Partners/Lone Star Ventures	130	UC
White Park	O/W	S	Kashirskoe highway M4, 30 km from MKAD	**145,000**	2006-2012	Coalco	tbd	P

* type: office/warehouse (O/W), industrial park (IP).

** status: existing (E), under construction (UC), planned (P).

Kulon Baltia warehouse complex located in one of the most favorable warehouse locations (North –West), in direct proximity to Novorizhskoe highway M9, proceeds through State Commissioning. In September the project got positive evaluation and approval of the Hygiene and Epidemiology Department of Moscow Region. Kulon Baltia includes about 24 000 sq.m of the warehouse space and 3 200 sq. m of the office component. Kulon Baltia signed earlier pre-lease agreements with Sheider Electric, Stockmann and Pragmatic Express.

Investment company **Coalco** announced the plan to construct about 1 mln sq m of warehouse space in Moscow Region during next 7 years. Earlier Coalco announced the project to be realized in partnership with American developer AIG/Lincoln.

First project of Coalco called **"White Park"** is planned to be finished in 2006 and will provide to the market about 145 000 sq. m (1 phase) of warehouse space. The construction site will be located on Moscow-Don highway (South) in 30 km from MKAD. Coalco acquired about 220 Ha for future developments in Domodedovo district, Moscow Region. Total investment is estimated at 550-600 mln USD.

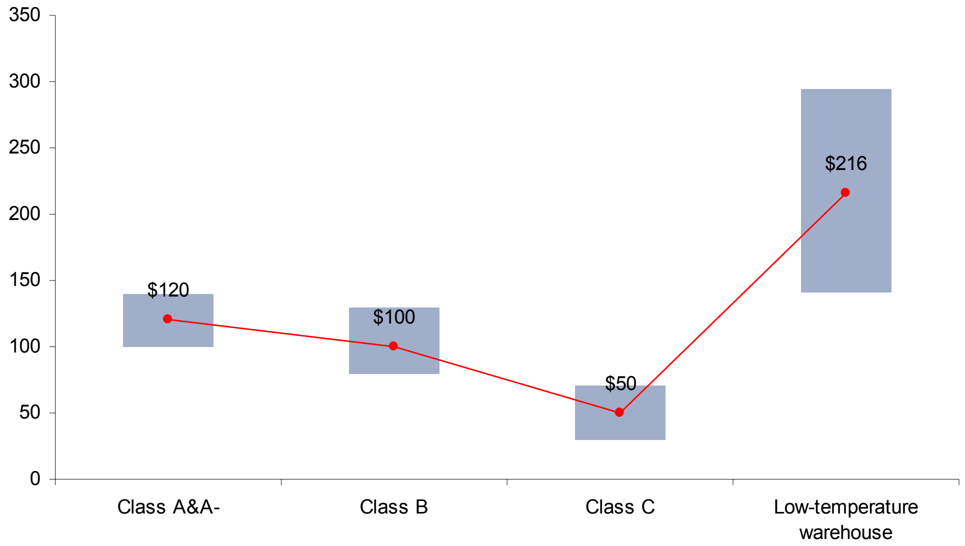
Rental Rates

The industrial prime rates over Q3 2005 remained static at 110-140$/sq.m/yr.

Deviations in rental rents became more noticeable in terms of location. Location criterion is not reduced to the distance from Moscow only, but includes more specific conditions mentioned bellow, but not limited to:

1. Location within Moscow, which is an attractive place for retail distribution units (120-140$/sq.m/yr.)
2. MKAD (Moscow ring road) and proximity to the major highways within 3 km from MKAD (120-140$/sq.m/yr.)
3. Location on the major highways within 10 km distance from MKAD (110-140$/sq.m/yr.)
4. More than 10 km from MKAD on a major highway or on ring road A 107 (105-130$/sq.m/yr.)

Class B rental rates stayed unchanged at the level of 90-110 $/sq.m/yr.



Source: Cushman & Wakefield Stiles & Riabokobylko Research

Rental rates of low temperature warehouses are noticeably higher – $150-300 per sq m annually and depend on the type of warehouses and the temperature to be sustained.

Lease terms and total rented area have bigger impact on prime class pricing as the main large space demand drives, like local/international logistic and retail companies, strengthen in the market. Landlords aiming to attract and secure big tenants start to propose new pricing structure in function of the space rented and lease term (e.g. NLC rented 70 000 sq m at Pushkino Logistics Park for 8 years for 110 USD/sq m/annum).

Key Leasing Transactions

In Q3 2005 NLC and Relogix signed the pre-lease agreement for 70 000 sq. m for each company at Pushkino Logistic Park. The project is being developed by Capital Partners and Lone Star Ventures. Portfolio of Capital Partners includes office buildings, residential, shopping centers, hotel Ritz Carlton (Moscow) and only one warehouse in the list, but already fully pre-leased at the construction phase to DHL, NLC, Relogix.

The first phase of Pushkino Logistic Park is currently under construction. The delivery is scheduled for October 2005. 90 % of phase one of the project has been earlier pre-leased to DHL.

Vacancy

The vacancy rate in Q3 2005 is unchanged and estimated to be at about 2% for Class A warehouses, 4% for Class A- warehouses and about 6% for Class B warehouses in Moscow/Moscow Region market. 2% vacancy rate means almost 0% for the current market because the available areas are scattered around several almost 100% leased warehouses.

Warehouses delivered recently did not influence the market demand because most of them were pre-leased during construction phase. Very low vacancy rates in the market stimulate pre-leasing activities to secure prime warehouse space. Our analysis shows that, according to realistic scenario, very low vacancy rates will most likely be sustained for the next year minimum, before substantial increase in the development pipeline.

Demand

The highest demand has been registered on behalf of retail chain operators, logistic operators and suppliers of car spare parts. Major logistics and retail operators are in need of class "A" warehouse complexes with an area of 20-50,000 sq m.

Landlords and developers mainly focused on securing larger tenants, thereby creating a difficult market for smaller space users. Medium-size logistic operators and end-users are forced to reconcile with lower quality and consider class "A-"and "B" warehouses to lease from 500 -5,000 sq m area.

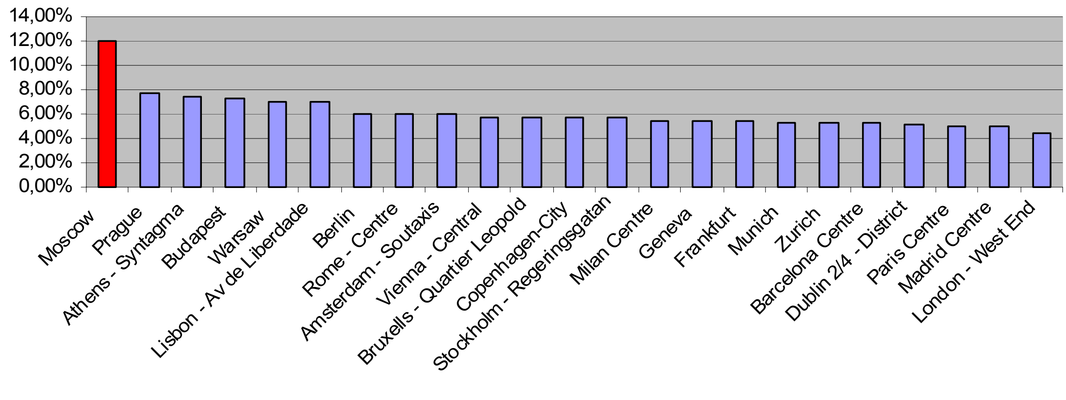
INVESTMENT MARKET

The Moscow commercial real estate investment sales market continues to grow, though relatively slowly. Risk issues and the lack of investment grade buildings are the two major constraining factors. Perceived political risk which remains rather high in Moscow as well as across Russia has had an adverse impact on the property investment markets.

However, despite all the negative factors, the Moscow property investment market is one of the most attractive European markets as far as yields are concerned. The retail sector ranks first with a broad dispersion of yields ranging between 12.5% and 15% for street retail units and between 15% and 25% for shopping centers. Retail yield compression trend in Moscow as well in the majority of European cities is likely to continue, however is significantly slower than in the office and warehousing sector.

In the meantime, the Moscow office sector has seen a considerable yield compression. For prime office properties yields have fallen from 17-20% in 2000 to 13% in Q2 2005 and 11.75%-12.50% in Q3 2004. Despite this downward trend, Moscow remains the most attractive office market in Europe from an investor's point of view. Prague, Athens and Budapest are the closest competitors to Moscow in terms of yields.

Office yields comparison Moscow Q3 2005 to Europe Q2 2005



Source: Cushman & Wakefield Stiles & Riabokobylko Research

We believe that yield compression will continue at an average annual rate of 100 basis points up to 2009. Thus, in Q4 2005 yields may decrease to 11.50%-12.25%. We anticipate that in 2010 yields will stabilize at the 8% level.

The volume of the most visible investment deals in Q3 2005 in Moscow was about $35 million and included the properties listed below. As the investment market is immature, the information might not be accurate and in many cases, confidentiality issues prevent us from reporting the data.

Myasnitskaya 46/2 (office)

Myasnitskaya 46/2, bldg. 7 (office)

A 20% stake in Kaluzhsky Retail Complex (retail)

Tinkoff Moscow Restaurant (retail)

Data from the above transactions show the following range of prices:

3,300 – 6,950 USD per rentable office square metre and 3,158 – 4,386 per rentable retail square metre.

Key players and investment news

In the summer of 2005 the Russian market saw the arrival of a new major investment player – the Raven Group. This UK-based company established an investment fund for Russia – Raven Russia Limited. Raven announced that it planned to invest about $500 million in the warehousing sector in Russia during the coming two years. $220 million was raised by placing of shares on the London Stock Exchange at the end of July. Raven is looking for warehouses in Moscow and Saint-Petersburg.

At the end of September Mirax Group and Concordia Asset Management launched two closed-end share investment funds (similar to REITs). "Federation Fund" was established with the sole purpose of financing the construction of Federation Complex, which will be the highest building in Europe. "Mirax First Real Estate Fund" will be investing in Mirax's other development projects. The validity period is five years for both funds. The minimum price of a share is RuR. 50,000. The shares will allow their owners to get a permanent income from their investments, however, they will not own any space in the buildings.

The purchase of the Tinkoff Moscow Restaurant by Troika Dialog Asset Management marked another significant event on the Moscow investment market. Tinkoff will lease back its 1,900 square metres for ten years. The restaurant was acquired by Troika in order to expand the real estate portfolio of its "Commercial Real Estate Closed-end Share Investment Fund". Troika is likely to purchase two other Tinkoff Restaurants in Yekaterinburg and Samara.

Average office vacancy rates

Class A											
	Total	**BEL**	**CBD**	**CTY**	**FRU**	**NOV**	**OTA**	**SCH**	**SOK**	**TAG**	**ZAM**
August 2004	3.19%	0.0%	4.4%	14.5%	6.6%	0.0%	11.2%	0.0%	0.0%	0.1%	3.8%
September 2004	2.16%	0.7%	3.6%	0.0%	3.9%	1.8%	0.0%	0.0%	0.0%	0.1%	2.1%
October 2004	1.68%	0.1%	3.0%	0.0%	5.2%	1.7%	0.0%	0.0%	0.0%	0.1%	1.2%
November 2004	1.69%	0.1%	3.0%	8.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	1.6%
December 2004	1.67%	0.0%	2.0%	0.0%	0.0%	1.0%	19.7%	0.0%	0.0%	0.2%	2.5%
January 2005	2.13%	0.9%	2.7%	0.0%	0.0%	1.0%	6.6%	0.0%	0.0%	0.3%	3.7%
February 2005	2.10%	0.0%	2.8%	0.0%	0.0%	0.8%	2.6%	0.0%	0.0%	0.1%	4.0%
March 2005	1.72%	0.0%	2.8%	0.0%	0.0%	0.8%	0.0%	0.0%	0.0%	0.4%	2.8%
April 2005	2.16%	0.0%	4.3%	0.0%	0.0%	0.9%	0.0%	0.0%	0.0%	0.0%	2.8%
May 2005	2.43%	0.0%	3.9%	0.0%	0.0%	0.8%	5.6%	0.0%	0.0%	0.4%	3.7%
June 2005	3.84%	0.0%	3.8%	0.0%	0.0%	11.0%	6.8%	0.0%	0.0%	0.0%	2.5%
July 2005	3.58%	0.0%	3.8%	0.0%	0.0%	10.4%	5.5%	0.0%	0.0%	0.0%	2.0%
August 2005	4.41%	0.0%	5.4%	0.0%	0.0%	11.7%	5.5%	0.0%	5.1%	0.0%	2.3%
September 2005	3.87%	0.0%	4.9%	0.0%	2.6%	11.8%	0.0%	0.0%	0.0%	0.0%	1.3%
October 2005	3.48%	0.0%	4.7%	1.0%	0.0%	11.0%	0.0%	0.0%	0.0%	5.2%	0.0%

Class B										
	Total	BAS	BEL	CBD	FRU	NOV	OTA	SCH	SOK	TAG	ZAM
August 2004	3.52%	3.1%	5.5%	4.3%	0.9%	10.4%	1.7%	3.6%	0.0%	0.6%	3.6%
September 2004	3.89%	2.4%	4.8%	4.9%	0.9%	12.4%	2.0%	4.2%	1.5%	0.4%	3.4%
October 2004	3.31%	0.0%	0.0%	5.0%	0.8%	11.6%	2.3%	1.5%	1.9%	0.4%	3.0%
November 2004	4.60%	3.2%	4.0%	5.5%	0.5%	11.0%	5.0%	1.6%	2.6%	0.0%	2.8%
December 2004	4.72%	2.7%	3.2%	5.3%	0.0%	9.6%	5.3%	2.2%	13.2%	0.1%	2.4%
January 2005	4.09%	2.0%	3.8%	5.3%	0.0%	9.3%	4.7%	2.0%	0.0%	0.2%	1.8%
February 2005	4.19%	0.8%	3.6%	5.4%	0.0%	10.0%	3.2%	0.9%	22.7%	0.5%	2.0%
March 2005	4.16%	1.1%	1.5%	6.0%	0.5%	6.1%	3.4%	2.1%	22.8%	0.0%	2.7%
April 2005	4.20%	0.8%	2.5%	6.3%	0.0%	5.1%	3.7%	1.6%	22.6%	0.8%	2.3%
May 2005	3.92%	0.7%	2.0%	5.6%	0.0%	6.0%	3.3%	4.0%	16.9%	0.0%	2.2%
June 2005	4.07%	2.5%	2.0%	4.6%	0.0%	4.9%	3.8%	4.3%	22.9%	0.7%	2.3%
July 2005	4.04%	2.7%	2.1%	4.3%	0.0%	4.9%	5.8%	3.5%	0.0%	0.9%	2.5%
August 2005	4.58%	3.3%	1.9%	3.6%	0.7%	5.8%	5.8%	3.7%	23.9%	0.5%	2.1%
September 2005	4.59%	3.4%	2.1%	3.2%	2.6%	6.4%	5.8%	4.2%	21.9%	0.5%	1.8%
October 2005	3.92%	5.0%	3.5%	3.0%	0.0%	4.4%	5.8%	0.0%	19.2%	0.6%	0.0%

Annual office market indicators

Submarket	indicator	2001			2002			2003			2004			2005 (Jan-Oct)		
		A	B	TOTAL	A	B	TOTAL	A	B	TOTAL	A	B	TOTAL	A	B	TOTAL
ALL	Rental Rate	$455	$414	$433	$482	$376	$405	$496	$386	$420	$554	$429	$477	$607	$433	$501
	Sale price	$2,346	$1,763	$1,971	$1,800	$1,711	$1,712	$2,804	$1,503	$1,578	$2,593	$2,606	$2,603	$2,596	$2,654	$2,644
	TakeUp	145,572	201,377	346,948	126,253	319,539	445,792	154,883	499,691	654,574	292,256	531,442	823,698	289,987	557,001	846,989
	OpEx	$81	$76	$78	$78	$55	$61	$79	$57	$64	$87	$64	$73	$92	$73	$81
BAS	Rental Rate		$376	$376		$361	$361		$366	$366		$403	$403	$700	$463	$490
	Sale price		$918	$918		$2,100	$2,100		$1,600	$1,600		$1,902	$1,902		$2,388	$2,388
	TakeUp		14,590	14,590		12,409	12,409		18,736	18,736		31,981	31,981	3,701	56,627	60,328
	OpEx		$30	$30		$68	$68		$49	$49		$42	$42	$85	$77	$79
BEL	Rental Rate	$483	$445	$451	$465	$367	$383	$498	$400	$429	$554	$485	$496	$599	$561	$577
	Sale price	$2,553	$1,690	$2,306		$2,074	$2,074					$2,500	$2,500		$4,000	$4,000
	TakeUp	20,483	17,633	38,116	4,615	22,551	27,166	11,355	36,908	48,263	9,262	47,042	56,304	25,849	35,637	61,486
	OpEx	$93	$68	$80	$88	$54	$59	$81	$54	$62	$87	$75	$77	$109	$79	$92
CBD	Rental Rate	$529	$452	$481	$502	$430	$449	$516	$471	$489	$591	$540	$566	$672	$532	$585
	Sale price	$2,147	$1,753	$1,883		$2,005	$2,005	$3,150	$2,209	$2,237	$2,542	$3,403	$3,232		$3,356	$3,356
	TakeUp	65,646	81,967	147,613	71,069	120,317	191,386	42,796	104,747	147,543	72,353	93,169	165,522	32,609	78,438	111,047
	OpEx	$85	$82	$83	$84	$63	$69	$92	$65	$77	$94	$74	$85	$100	$80	$87
CTY	Rental Rate				$504		$504	$500		$500	$624		$624	$624		$624
	Sale price							$3,500		$3,500						
	TakeUp				6,674		6,674	1,228		1,228	42,175		42,175	27,758		27,758
	OpEx				$80		$80	$80		$80	$76		$76	$75		$75
FRU	Rental Rate	$436	$335	$425	$495	$350	$374	$430	$461	$452	$604	$431	$489	$500	$420	$460
	Sale price		$1,158	$1,158		$3,200	$3,200		$1,863	$1,863		$2,588	$2,588		$4,500	$4,500
	TakeUp	9,847	3,067	12,914	1,823	10,135	11,958	12,154	30,154	42,308	7,355	21,152	28,507	1,201	8,825	10,026
	OpEx	$88	$80	$87	$63	$20	$27	$50	$71	$67	$50	$51	$51			
NOV	Rental Rate	$433	$397	$423	$452	$409	$433	$464	$370	$405	$526	$437	$467	$637	$464	$552
	Sale price		$2,172	$2,172	$1,800	$1,653	$1,690		$1,259	$1,259		$2,731	$2,731	$1,140	$2,680	$2,581
	TakeUp	14,680	20,468	35,147	13,477	13,495	26,972	14,438	46,585	61,023	15,590	38,755	54,345	29,338	69,636	98,974
	OpEx	$77	$57	$72	$80	$47	$66	$66	$64	$65	$80	$72	$76	$97	$80	$89
OTA	Rental Rate		$313	$313		$275	$275		$327	$327	$436	$331	$362	$491	$353	$379
	Sale price		$2,968	$2,968		$1,051	$1,051		$997	$997	$622	$2,163	$2,045	$2,050	$1,922	$1,962
	TakeUp		17,259	17,259		80,593	80,593		174,686	174,686	40,617	151,868	192,485	56,819	207,725	264,544
	OpEx		$83	$83		$44	$44		$52	$52	$77	$62	$67	$73	$64	$67
SCH	Rental Rate		$340	$340		$368	$368		$352	$352		$411	$411	$621	$453	$536
	Sale price								$1,000	$1,000		$2,305	$2,305		$2,479	$2,479
	TakeUp		6,687	6,687		15,295	15,295		23,793	23,793	4,000	86,261	90,261	23,799	36,914	60,713
	OpEx		$99	$99		$52	$52		$50	$50		$54	$54	$90	$76	$77
SOK	Rental Rate	$361	$306	$324	$385	$315	$335		$399	$399		$421	$421	$625	$378	$386
	Sale price		$2,000	$2,000					$767	$767		$1,591	$1,591		$3,890	$3,890
	TakeUp	732	5,418	6,150	3,277	8,496	11,773		25,448	25,448	377	18,903	19,280	900	32,682	33,582
	OpEx	$80	$62	$68	$43	$48	$46		$73	$73		$80	$80	$134	$71	$72
TAG	Rental Rate	$433	$435	$434	$458	$382	$403	$450	$435	$444	$551	$397	$488	$548	$462	$482
	Sale price		$2,106	$2,106					$1,668	$1,668					$3,250	$3,250
	TakeUp	4,103	5,043	9,146	3,068	9,152	12,220	9,796	10,227	20,023	7,499	5,324	12,823	4,422	16,330	20,752
	OpEx	$79	$85	$82	$82	$56	$64	$67	$59	$64	$77	$66	$72	$87	$61	$69
ZAM	Rental Rate	$422	$432	$426	$491	$428	$460	$506	$394	$473	$539	$487	$521	$622	$549	$609
	Sale price		$1,957	$1,957		$1,800	$1,800	$2,700	$2,059	$2,437	$2,917	$4,293	$3,458	$3,707	$2,667	$3,621
	TakeUp	30,081	29,246	59,327	22,250	27,096	49,346	63,116	28,407	91,523	93,028	36,987	130,014	83,591	14,188	97,779
	OpEx	$74	$63	$69	$74	$62	$68	$75	$49	$67	$98	$72	$91	$94	$77	$91

Selected office projects

Krylatsky Hills, Building B

Krylatskaya ul, 19

PROPERTY INFORMATION

PROPERTY STATUS : Under construction

DELIVERY DATE : 10/30/2005

CLASS : A

SUBMARKET : OTA

GROSS SIZE [sqm] : 18,933

OFFICE SPACE [sqm] : 15,512

NUMBER OF FLOOR : 6

FLOOR PLATE SIZE [sqm] : 2576

PARKING RATIO : 1/40

NUMBER OF SLOTS : 355

PROPERTY MANAGEMENT : Sawatzky

DEVELOPER : CMI Development

Gazetny per., 13-15

Gazetny per., 13/15, Build. 1,4,5

PROPERTY INFORMATION

PROPERTY STATUS : Existing

DELIVERY DATE : 07/01/2005

CLASS : B

SUBMARKET : CBD

GROSS SIZE [sqm] : 7,606

OFFICE SPACE [sqm] : 4,655

NUMBER OF FLOOR : 4

FLOOR PLATE SIZE [sqm] : 1150

PARKING RATIO : 1/76

NUMBER OF SLOTS : 61

DEVELOPER : Lusine Concern ZAO

Selected retail projects

Dream House

Rublevo-Uspenskoye sh., Barvikha

PROPERTY STATUS : Existing

SUBMARKET: NW

DELIVERY DATE: 9/25/2005

TOTAL AREA, sqm: 13,000.00

GLA, sqm: 8,523.00

NUMBER OF FLOOR: 4

PARKING SLOTS: 120

DEVELOPER: Dream House

OWNER: Dream House

LEISURE: Food court

CATEGORY: Fashion

ANCHOR TENANTS: Azbuka Vkusa

Gimeney

Bol. Yakimanka st., 22

STATUS: Existing

SUBMARKET: CBD

DELIVERY DATE: 9/14/2005

TOTAL AREA, sqm: 13,987.00

GLA, sqm: 4,650.00

DEVELOPER: Dominion M

OWNER: TIS Trade LTD

LEISURE: Café

CATEGORY: Fashion

ANCHOR TENANTS: Globus Gurme

HOTEL MARKET OVERVIEW

Russia hotel market

This report looks at the present situation in the Russian hotel market, and in particular the Moscow market. Though the Russian hotel market showed significant growth over the past few years, it is still modest in size and represents a large potential for development. The middle class and economy class hotel niche necessary for both Russian and foreign tourists is extremely underdeveloped, and in the next several years, this market segment is likely to boom. The supply of long-term residence accommodations is all but nonexistent. The hotel industry is expected to become one of the most dynamic sectors in Russia. With its large population and improving economy Russia is one of the most promising markets in the world and offers excellent opportunities to foreign businesses.

Market Overview

With its large population, huge industrial and raw materials potential, Russia is potentially one of the biggest markets in the world. The country has attracted and will continue to attract increasing numbers of business people.

Although Russia's hotel industry grew significantly and achieved spectacular results within the last decade, it is still modest in size compared to that of Western countries, and is not able to accommodate the growing number of guests. Starting in the mid 90's, almost all famous international hotel chains, such as Radisson, Kempinski, Marriott, Intercontinental, Holiday Inn, Best Western, Hayatt, Rocco Forte, and Sheraton started operations in major Russian cities. The brands mentioned above meet the needs of upscale foreign business travelers and tourists. So, while the upper tier of the hotel market is close to saturation in Moscow and is likely to develop at a slower pace, there is still space in Russia's regional capitals and Russia's popular tourists cities. To date, the market of mid-tier and budget hotels has not developed to satisfy the demand of both Russian and foreign middle-class business travelers and an ever increasing number of tourists. The highest level of unfulfilled demand is for quality three star and economy hotels. This niche offers the most promising perspectives throughout Russia. There is also a gap in the market for long-term residence accommodations, which are needed to provide rooms to the increasing number of business travelers on extended stays in Moscow. In general the main trend in the hotel market is its expansion. Though some experts estimate the Russian hotel market at 2 billion dollar a year, other are more cautious and refrain from making any estimates of the market size.

The shortage of tourist-class hotels in Russia seems to have finally caught the eye of potential investors. Given the ample supply in the segment of luxury and business-class hotels, the niche of tourist-class hotels is drawing even greater developer attention prompted by an anticipated rise in the number of both domestic and foreign tourists visiting Russia. Thus, according to Moscow City Government estimates, the current number of around 2.5 million visiting tourists is estimated to reach 5 million within the next decade. By comparison, Berlin attracts 3.2 million, Vienna 2.8 million, and London 18 million. Furthermore, by year 2020, Russia is expected to be among the 10 top most visited countries in the world, attracting 3 percent of the worlds tourist market.

Market experts indicate that the Russian hotel market is undergoing a decentralization process, focusing attention on the Golden Ring of Russia, Black Sea resorts in the Krasnodar region, and regional capitals, such as Nizhny Novgorod, Samara, Yekaterinburg, and Novosibirsk. In general, with a few exceptions, the hotel market in Russia is in the very early stage of development. Typically every regional capital has a big Intourist Hotel and a hotel/guest house, which is managed by the region's administration - both still bearing Soviet-style accommodations. The cities where major Russian corporations like Gazprom, Yukos and/or Russian-Western JV are present often have one or two modern small corporate hotels (typically four-star).

The Federal Tourism Development Program calls for 3.8 million dollar per year to be allocated for development of tourism. According to estimates, Russia receives up to 40 million tourists per year. The plan names Moscow, the Moscow region, St. Petersburg, Kaliningrad, and the Golden Ring of Russia as major tourism centers and priorities for development, and places an emphasis on the development of the three-star hotel segment.

For years experts recognized the lack of three star hotels as a major handicap in Russia's tourist development. Recent trends in the market show that unsatisfied demand finally stimulated an influx of investment into the hotel sector, and market insiders believe that the saturation of the market will be growing at a faster pace.

According to the Russian Union of Tourist Industry, because of the lack of hotels Russia is not able to accommodate about 30-50 percent of in-bound travelers. According to Hotel Consulting and Development Group estimates, to meet the demand 15 to 20 three star hotels of 70-100 rooms should be built in each of the following popular tourist areas: Golden Ring Cities of Russia (14 cities), Krasnodar Krai sea resorts, Karelia, Kamchatka, and other destinations. Average construction cost of one hotel is about 5-20 million dollar, however market experts have not ventured to make estimates of the total cost of tourist infrastructure development necessary in the near future.

In early 2003, several major hotel development projects were announced. Delta Capital Management and SAS Rezidor, the operator of Radisson hotels in Moscow and Sochi, announced that they were launching a chain of up to 50 three-star, Country Inn brand hotels. The project will require about 650 million dollar in investment and is planned for completion by 2012.

Menatep Bank (affiliated with Yukos Oil Company) and a British hotel developer Sabre in cooperation with Marriott declared their intention to build a national chain of about 50 mid-class and economy hotels. The group intends to invest 300 million dollars into the project, which is to be completed over the next decade. However, considering the legal claims against Yukos, it is difficult to say whether the project will be completed.

German Kempinski Group, operator of the Balchug Hotel in Moscow and Grand Hotel Europe in St. Petersburg, plans to operate a chain of three-four star Key International hotels that Swiss GHE plans to develop in Russia's regions.

However, so far these projects remain long-term intentions.

The Moscow Hotel Market

In 2003 Moscow attracted a total of 42 billion dollars in investment in the hotel sector, of which 13.9 billion dollars was investment by foreign entities. The city is the heart of a 150 billion dollar retail trade network connecting 11 million sites across the country. Moscow City Hall is involved in almost every large venture in Moscow dominating the local hotel market and owning stakes in numerous retail outlets.

According to official data, the Moscow hotel market is comprised of approximately 175 hotels able to accommodate about 72,000 guests. In Moscow there are 5,500 Western standard hotel rooms available. According to the city's long-term plan for hotel development the number of beds will increase to 200,000 by 2010, about 40 percent of which will be in the two- and three-star classification.

If conventionally classified, the Moscow hotel market can be broken down into two groups Western-style and Soviet-style hotels. The upper-tier hotel niche includes the Ararat Park Haytt, National, Balchug-Kempinski, Marriott Grand Hotel, Marriott Aurora Royal, Renaissance, Metropol, Radisson-Slavyanskaya, and Sheraton Palace. The mid-tier is represented by the Savoy, Marriott-Tverskaya, Novotel, President Hotel, Golden Ring, Mezhdunarodnaya, and Katerina. There is only a small segment of a dozen economy (tourist-class) hotels. The remaining properties fall into the Soviet-style hotel classification. The majority are heavily deteriorated and badly in need of substantial infrastructure renovations and upgraded service before they can even begin to compete in attracting foreign tourist and business travelers.

According to Moscow City Hall, Moscow hotels are broken down by category as follows:

Non-rated - 55

One star - 7

Two-star - 26

Three star - 37

Four star - 19

Five star - 8

However, in many cases, especially in the hotels with domestic management, the rating may not necessarily compare to internationally accepted standards.

More than 30 percent of the hotels in Moscow are concentrated within the center of the city (Central Administrative District), and the majority of these are 4 or 5 star properties. The North-East Administrative District has the second highest concentration of hotels, which were built in the 1950's in close proximity to the All-Russia Exhibition Center (at one time considered the center of promotion of Soviet achievements). There are numerous 2 and 3-star hotels (Altai, Voskhod, Tourist, etc.) as well as the 4-star Cosmos Hotel. In total these two districts account for 45.7 percent of the hotels in Moscow and 55.6 percent of all hotel rooms.

The city's hotel development plan foresees a more equal distribution of hotels throughout Moscow. Nevertheless, construction of mainly 4 and 5 star hotels will continue at a growing rate in the central part of the city, including the historic center of Moscow. In all other parts of Moscow priority will be given to middle and economy class hotels.

Although within the last 5 years about 50 new hotels appeared in Moscow, there was no substantial effect on the hotel market capacity, as several major hotels (Intourist, Moskva, and Minsk, providing about 1,500 rooms in total) closed. Additionally, a number of smaller hotels, including the Budapest, Tsentralnaya, Peking, Leningradskaya, Sport and Kievskaya have closed or will be closing for renovation in the near future.

Upper -Tier Hotels

The market niche for Western-style four and five star hotels is actually saturated. The majority of these hotels were built between 1992-1996, they are subdivided into premier and secondary tires, and located near the Kremlin or Tverskaya Street, which connects Red Square and the Sheremetievo International Airport. Today they maintain occupancy levels greater than 70 percent. These hotels have divided up the available market of foreign executives, high-rank officials and, increasingly, wealthier Russians.

Haytt Group was the latest entry in the high-end hotel niche. It operates the 219-room Ararat Park Hyatt, which opened in 2002, and is reported to be negotiating participation in several other projects. French company Superior Ventures Ltd. is investing about 130 million dollars into a new 34,000 square-metre, 12-storey, 400-room Hilton, which according to recent reports will open no earlier then 2006. There are several more five star hotel projects, including a hotel near the Russian Cultural Center, near Paveletskaya Square, that was approved, and other hotel projects on Pushkinskaya Square and Triumfalnaya Square are under discussion.

Despite industry expert opinions that the upper-tier hotel market is saturated, Moscow City Hall intends to further expand the niche by implementing the Golden Ring of Moscow concept by 2010. The concept was designed to promote tourism in the city. The 3 billion dollar project envisages the creation of a tourist and recreation zone in Moscow, and includes building 2 million square metres of hotel space in central Moscow, in the area between Kuznetsky Most, Kitai-Gorod, Zamoskvorechiye, and the Christ the Savior Cathedral. The unique nature of the area will involve reconstruction of historic buildings and priority will be given to four and five star hotels (62 percent) and 3 star hotels (38 percent). Additionally, according to Moscow City hall estimates, implementation of the Golden Ring of Moscow concept will increase the influx of foreign tourists from 1.5 million to 5 million per year, and increase tourist sector revenues from 500 million dollar to 2.5 billion dollar per year.

Several notable Soviet-style hotels located on the main Moscow thoroughfare and downtown are slated to follow Intourist's fate, and be demolished and replaced by new modern hotel complexes by 2006. Unlike Intourist, which is in the process of being transformed into a five-star Hilton, the prominent Moskva, Ukraina, Leningradskaya and Peking hotels will keep their names and be remade into four or five star hotels.

The three-star Moskva hotel will be upgraded to a five-star hotel after renovation. Located on Manezh Square and facing the Kremlin and the Bolshoi Theatre, the Moskva hotel, a visiting card of Moscow and a historic monument, will be rebuilt according to the original design of architect Shchusev. The project cost is estimated at about 300-350 million dollars, and will have about 350-390 rooms, with room rates above 250 dollars. Decorum Corporation, a US company little known in professional circles, is financing the project, and will have controlling interest in the hotel, the remaining 49 percent will belong to ST Group, a developer and Moscow City Hall.

The 100 million dollar Minsk hotel project will dismantle the hotel and replace it with a 40,000 square metre hotel, office and retail complex. It will remain a three-star hotel with room rates 110-115 dollars. The project is being carried out by an Industrial Holding Metalloinvest, which owns numerous mining and metal enterprises, agricultural businesses, and has impressive real estate assets.

The famously ugly 3,000 room Rossiya hotel occupying an entire block of prime down town real estate, owned by the city government is slated for demolition in the near future. Several four and five star, 5 and 6 story hotels will be built in its place. This new hotel complex will be carried out in the classic architecture style and in harmony with the neighboring Kremlin and other historical buildings in the area. According to preliminary plans, the work on the reconstruction of the Rossiya hotel will start in 2005, and will be completed in three to four years. Though no estimate on the project cost has been made yet, the announcement has aroused the interest of several financial magnates.

Systema-Gals, the real estate division of AFK Systema, a large Russian holding company and French Accor, operator of two Novotel hotels in Moscow, announced a 12 million dollar investment plan to create a national Ibis brand chain of about 50 mid-class and economy hotels in Moscow.

Mid-Tier and Economy Class Hotels

The three star and economy class hotels niche necessary for business and tourism is currently unfulfilled in Moscow. The lack of this class of hotels is a major obstacle for tourism development. Very few three-star and budget hotels have been built within recent years in Moscow.

The Mayor of Moscow has ambitions to make Moscow a tourist destination of global importance. To meet this goal Moscow needs to triple its hotel capacity by 2010. Though Moscow has the greatest concentration of hotels in Russia, there is an immediate need for about 20 hotels, to be built and reconstructed within next few years. According to the city's framework plan for the development of the hotels, the number of beds will increase to 200,000 by 2010. The plan envisages construction of new hotels in each administrative district of the city. Additionally, old hotels will be refurbished and remodeled to meet the criteria of modern infrastructure and service standards. Specific requirements will be set for the hotels located in the city center, where the high cost of land, makes construction of mid-tier and economy hotels unprofitable. Furthermore, Moscow City Hall is interested in development of the hotel sector because hotels create job and provide tax revenues to the city budget.

Market experts insist, that the present situation demonstrates that Moscow badly needs to develop the three star hotel niche, especially after the closure of the Intourist, Moskva, and Minsk. Remaining in this niche Cosmos, Rossiya, Ukraina, Mezhdunarodnaya, Izmailovskaya, and Belgrade, are large hotels in terms of number of accommodations with average 70 percent occupancy rates. But they are heavily deteriorated, poorly equipped (furniture, appliances, utilities) and the quality of service does not meet western standards accepted for this category of establishments. While occupancy rates in three star hotels are almost the same as in the upper-tier, occupancy rates in the budget category are over 80 percent.

In Moscow occupancy and room rates are dependent on a hotel's proximity to the city center, where land is very expensive. If old hotels in the city center manage to maintain prices adequate for middle class hotels, new developments are not able to keep up mid range prices because of the high cost of land, construction, and expensive credits. Moreover the cost of renovation is almost equal to the cost of new construction. No wonder, that after renovation old hotels increase their room rates and in the majority of cases reposition into the upper niche. It is natural that mid-range and economy class hotels, with room rates at 110 dollars are being forced out beyond the Garden Ring area.

The Moscow City government plans to build economy class hotels in different areas of the city. To provide for demand in mid-tier and economy hotels Moscow City Hall is encouraging investors to breath new life into old/dilapidated Soviet-style hotels which do not possess modern hotel services. Reconstruction of old and out of date multi-block hotels built in the 1950's provides a significant resource for the development of Moscow's hotel market. Recently the city approved reconstruction and modernization plans for a Soviet-era two and three star, 10-hotel complex of 4, 208 rooms in North-East Moscow. After renovation the Moscow city administration estimates that these municipally owned hotels (Ostankino, Zolotoi Kolos, Baikal, Turist, Altai, Zarya, Vostok, Yaroslavskaya) will increase their capacity 2.5 fold or up to 6,000 rooms and add several floors, as well as install cafes, hairdressing salons, gyms, and business centers. The complex will be redeveloped into a modern visitor friendly zone. On-going development of the city infrastructure and improving connections between the outskirts of the city and its center will make residing away from the center less expensive, yet similar in quality accommodation options for tourists.

Small Hotels and Residence Accommodations

Small hotels occupy less than 10 percent of the market. Among most successful and recognized small hotels are the Savoy, Katerina, Best-Western, Park Hotel, Danilovsky Hotel, Traveler's Guest House, Alrosa na Kazachyem, Sretenskaya, Sedmoi Etazh, Pallada, and recently added Aquarel, and Tiflis. In the majority of cases these are private or corporate hotels, or belong to various federal entities. They occupy the three or four-star niche and provide quality service. Based on the dire need for such hotels and little more than "word of mouth" advertising, these hotels are usually operating at or near capacity. In general, these hotels are not known to the public, and do use conventional advertising. Typically they reach potential clients directly.

Long-term residence accommodations are also needed as moderate price alternative to long term expensive hotel stays. But these are extremely limited in number. The first apartment hotels were built in Moscow on the eve of the 1980 Olympics. The most famous among them is the 550-apartment Mezhdunarodanaya-2 hotel with rental rates of 45-50 dollars per square metre per month. Iris is another international standard apartment hotel, however much smaller. It offers 44 apartments at 30 dollars per square metre per month. There are several other less known apartment hotels located in different parts of Moscow, which however do not have any impact on the market. Currently, companies renting individual up-scale apartments make up for a deficiency of modern apartment hotels. The rents range from 1,000 dollars to 15,000 dollars a month depending on location, quality and size of the apartment. It is estimated that about 30 percent of this market operates unofficially. According to expert opinion, about 250,000 foreign business people are permanently working or on extended stays in Moscow.

Several projects recently announced in the small hotel niche were an important move towards legalization of this market. These projects envisage development of several new sites, as well as replacement of old buildings. The Stabilnaya Liniya Group is going to build 10 small three star hotels of about 35-50 rooms each with room rates in the range of 99 dollars. All 10 hotels will be located within the Garden Ring in central Moscow, and will replace and replicate decayed historical buildings. The project is estimated at 30-40 million dollars and will be carried out within the next 3 years.

Market Opportunities

Office, retail and residential real estate markets are on the rise in Moscow.

Market experts believe that while high profitability rates on investments into these segments will remain, it is only natural that prospective investors will prefer to make investments in the segments, where a term of project development is shorter, and pay off time is between 3.5- 5 years. In the hotel sector pay back terms for a five and four-star hotel in Moscow is between 6 and 8 years on average. Investing in tourist class hotels is even less attractive because of the high cost of land and longer pay off time, about 8-10 years.

According to CHC International estimates, total construction cost for a three star hotel inside the Garden Ring starts at 100,000 - 130,000 dollars per room, compared to 120,000 -200,000 dollars per room for a four star hotel. Outside the Garden Ring construction cost is on average 10 to 20 percent lower respectively. For comparison, the average cost of construction of a one square metre of office or retail space is 500 dollars, and upon completion it is immediately leased to private firms at prices similar to construction cost. This allows a recoup of the investments within 3.5 - 4 years. While construction costs of a square metre of hotel space ranges between 800 - 1,500 dollars depending on a hotel category in Moscow, and about 300-500 dollars for three star space in the regions.

As investments in the hotel sector are not as profitable as those in commercial space and retail, the majority of the hotels to be built or reconstructed will have office, retails, sports and leisure facilities, i.e. anything that can bring additional revenues.

Moscow hotels are composed of various ownership structures, and include state owned hotels, joint-stock companies, joint-ventures with foreign ownership and privately owned hotels.

Moscow City owns a significant number of hotels outright and also holds a significant percentage of shares in non-city owned hotels. This position allows City Hall to negotiate directly with interested foreign parties, without consulting with the managers of these hotels. The Moscow City government developed qualification criteria for investors intending to enter the Moscow hotel market. Potential investors have to comply with the parametres, which include practical experience in hotel construction and reconstruction, proof of availability of sufficient financial means to carry out 3-4 hotel projects in Moscow, and 1-2 hotel projects in other cities, solid guarantees that they have 30 million dollars, as well as management agreements with Western hotel operators. Only those who meet these qualifications will be admitted to bid in closed tenders.

Irregardless of Moscow City Hall's keen interest in developing the hotel sector, the city is not interested in investing directly into a project and limits its participation to land plot allocations and construction permits.

The City of Moscow Department for External Economic Relations has a tourism division, which is prepared to assist hotel developers with information and government contacts. Some consulting companies such as Ernst & Young, Colliers International, and Baker & McKenzie closely follow the situation in the hotel market in Moscow and can render advice on development issues.

The Russian market outside of Moscow

Outside of Moscow, St. Petersburg offers tremendous hotel development and opportunities. The city is the most historic city in the country and is known as one of the most popular tourism destinations in the world. The number of foreign guests visiting the city is growing approximately 10 percent annually and exceeded 3 million in 2003. Local tourism officials and business analysts believe that even faster growth is limited only by the undeveloped tourism infrastructure, especially the inadequate number of quality, moderately priced, hotel rooms. Occupancy at both high-end and economy hotels is booming. The fastest growing real estate sub-sector is the small hotel (approx. 20 rooms) category. Investors, having no access to extensive international financing, focus their efforts on this sector and are quite successful. In 2003, twenty new small hotels were opened and currently the total number of such properties in St. Petersburg is between 60-70, with approximately 1,400 rooms. Analysts believe that the small hotel market has great potential and expect continued growth in 2004-2005. While the high-end sector is close to saturation, there is a considerable demand for mid-level hotel rooms. According to industry analysts, the current demand for quality hotel space is 30,000 beds in addition to the 30,000 existing beds.

The development of tourist infrastructure has taken off in the Golden Ring cities of Russia as well. Within the last year, regional investors built about 20 small (30-50 rooms) hotels, at about 300,000-500,000 dollar each. Anticipated pay off time is about 10 years.

The Moscow City government has started a project to develop a network of hotels primarily in the cities forming the Golden Ring of Russia. Recently the Moscow city government announced that it is investing 60 million dollars into the construction of 5 three star hotels in the Yaroslavl region (cities of Yaroslavl, Vladimir, Suzdal, Pereyaslav-Zalessky, Uglich), all favorite tourist destinations. The project should be completed in 2005, and will be owned by the Moscow city government.

In terms of regional development, the hotel sector and tourist infrastructure is rapidly expanding in the Krasnodar region. Primarily due to it geographical and economic position, the region has attracted significant investment from a number of foreign and large Russian companies.

A number of impressive projects have begun in Krasnodar Krai. The most famous project there is the sky resort Krasnaya Polyana, which is very popular with political and business elite. The volume of investment in the project is 377 million dollar, of which 86 million dollars is from the federal budget. According to RBC Daily, when completed the resort will be able to accommodate 25-30 thousand visitors daily, or 7 million visitors a year. A number of large investors are already active in the area. Universal Management and Consulting Company (Umaco) is building two apartment hotels, the 93 unit Katerina Alpik (to be completed mid 2004) and the 174 unit Katerina Residence (to be completed in 2006). Both developments will be equipped with restaurants, swimming pools, saunas and stores. Total investment in the project is about 40 million dollars.

The Sochi Golf & Country Club is a joint project between Umaco and Krasnaya Polyana. Golf is becoming increasingly popular among Russia's upper echelon of politicians and businessmen. The project includes 18-hole golf club, Spa and hotel. The project estimated to cost between 100-150 million euros.

Additionally, private small 10 to15 room boutique hotels are increasing in number as well. However, there are no reliable statistics on the real number of such hotels. Presently there are about 300 such family hotels registered in Sochi, and it is anticipated that in the near future this number will grow several folds. However, it is unlikely that many of these hotels will be registered as hotel businesses.

The Kaliningrad region is another tourist destination where recently the hotel sector has shown visible growth. Within recent years about 20 new small hotels and guest-houses have started operations. The Konti Group of companies has already invested about 10 million dollars into hotel construction in Kaliningrad region. By 2005 Konti plans to invest about 150 million dollars into building a chain of hotels, including apartment hotels and a hotel-entertainment center designed to be the largest such complex in Europe. The company also announced plans to build a high-profile medical center and an aqua park. Konti plans to implement these projects jointly with their German partner. According to expert estimates, the Kaliningrad region can attract about 1 million tourists, about 10,000 hotel rooms are needed to accommodate this number of visitors.

Supply analysis – cottage communities

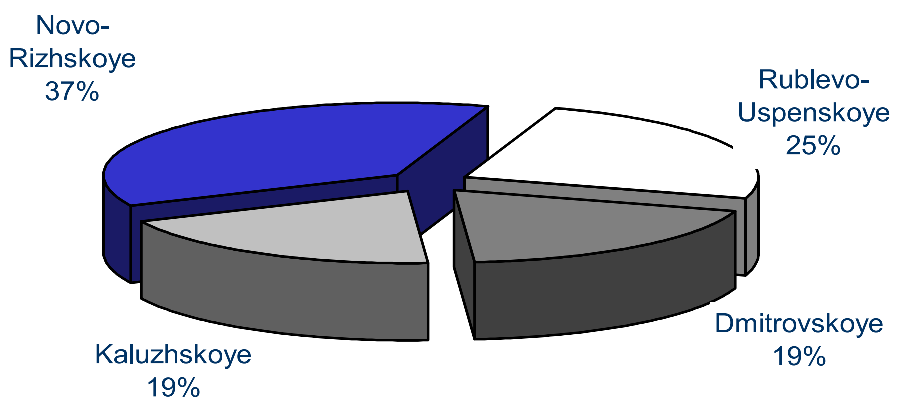
It is common to see town house complexes within cottage communities, or villages, although there are several pure townhouse projects. Cottage communities without town house component are, however, more common, than with town house component.

According to the data of the Russian Realtors Guild (RRG) (data as of end 2004):

- Since 1990 more than 7500 cottages have been built in Moscow region
- The construction of some 10 000 cottages remains unfinished
- The pace of construction of this category is about 2 000 units per year.

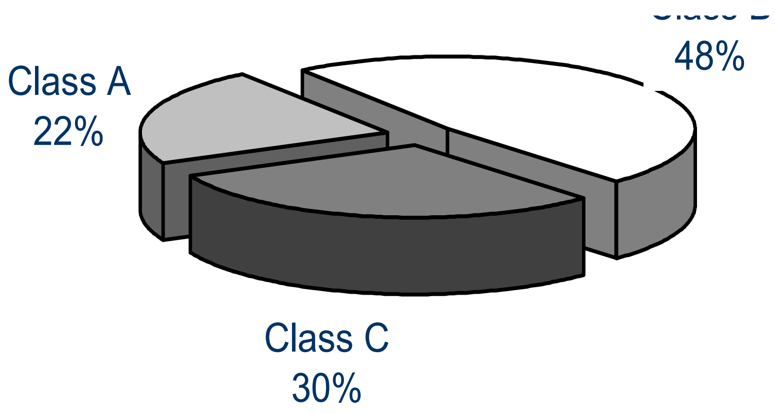
As for the first quarter of 2005, the supply of cottage projects under construction has grown: there are some 100 communities under construction. There is new supply at Rublevo-Uspenskoye, Minskoye, Novo-Rizhskoye, Kaluzhskoye and Dmitrovskoye shosse. The leading direction by the amount of new projects at the moment turns to be Novo-Rizhskoye shosse, with 33 projects underway. The breakdown of new projects by direction and by class is shown in the diagrams below.

Fig. 1: New suburban projects breakdown by direction (Q1 2005)



Source: Blackwood, analysis C&W S&R

Fig. 2: New suburban projects breakdown by class (Q1 2005)



Source: Blackwood, analysis C&W S&R

Communities and complexes within Moscow administrative boundaries

Several town house communities exist within the administrative boundaries of Moscow, although the supply of those is very limited. We list here some of the typical projects.

Town house communities

"Udachnoe"

This community is located in a forest some 12 from MKAD at Leningradskoe shosse. 14 town houses are built at 4.7 ha. Each unit has an area of 177 to 252 sqm, and 200 sqm of land. A cottage here costs from $160 844 to $200 600.

Pictures 1, 2: Community "Udachnoe"

"Yasnaya Polyana"

This community is located at Dmitrovskoye shosse, 25 km from MKAD. It consists of 63 town houses. Each house has an area from 187 to 192 sqm. Each building consists of 16 units. Land plots are 200 to 400 sqm. The community has a total area of 2 ha. As for infrastructure, it features some shops, children playgrounds and parking. Units are priced at 128 843 $ to 132 288 $.

Pictures 3, 4: Community "Yasnya Polyana"

"Lesnoy"

Lesnoy is located 11 km from MKAD at Pyatnitskoye shosse. It features four-level town houses with 250 – 300 sqm of land. Units of 170 to 240 sqm are priced at $1200 per sqm.

Picture 5: Community "Lesnoy"

“Barvikha Club”

This community has won the “Community of the year – 2004” award. It is located at Rublevo-Uspenskoe shosse, 10 km from MKAD. 110 town houses are built on a site of 5.8 ha. Units have 287 to 380 sqm of area, with 50 to 400 sqm. The community has a shopping centre with fitness centre, restaurant, sports and children playgrounds. A unit here costs $300 000 - 700 000.

Pictires 6, 7: Community “Barvikha Club”

Mixed town house/cottage communities

“Novogorsk”

This community is located at Kurkinskoye shosse, 7 km from MKAD. It features 200 town houses and 40 cottages. Units are 95 to 300 sqm with land plots of 200 to 600 sqm. The village has an elementary school, kindergarten, sports complex, restaurant, beauty salon. The units are priced at $1200 to $2000 per sqm.

Pictures 8, 9: Community “Novogorsk”

“Rosinka”

This famous community is located at Pyatnitskoye shosse, 12 km from MKAD. Cottages and town houses are constructed by US projects and technologies. The community has 80 units (town houses and cottages). The area of a unit ranges from 205 to 626 sqm, land plots are 1250 to 1650 sqm. British International School, Russia is located here. There is sports centre with a swimming pool, a medical centre, beauty salon. Units are priced at about $1500 per sqm.

Picture 10: “Rosinka”

Cottage communities

“Novo-Spasskoye”

This community is located 27 km from MKAD at Kaluzhskoye shosse. The cottages are from 170 to 600 sqm, land plots are 1500 to 3000 sqm. There are centralized communicatioins. The community features a spa centre, shop, restaurant, playgrounds. 190 houses are built here, priced at $350 to $600 per sqm.

Pictures 11, 12: Community Novo-Spasskoye

"Timoshkino"

Timoshkino is located 21 km from MKAD at Volokolamskoe shosse. It has 50 houses starting from 200 sqm, with land plots of 1400 to 4000 sqm. A square metre here costs about $2000.

"Chigasovo"

Chigasovo is located 27 km from MKAD at Rublevo-Uspenskoye shosse. There are 17 estate houses and 81 cottages. The houses are from 300 to 600 sqm, with land plots of 1200 to 1400 sqm. The community has a medical centre, restaurant, leisure centre. 1 square metre here costs $2800 to $3500.

Pictures 13, 14: Community "Chigasovo"

“Razdory"

Razdory is the closest community to MKAD at Rublevo-Uspenskoye shosse (6 km). It has 36 houses of 450 to 900 sqm, land plots are 1200 to 2900 sqm. The pricing here is about $3000 per 1 sqm.

Picture 15: Community “Razdory”

Table 1: Quality cottage communities in the Moscow region

Project	Distance from MKAD, direction	Developer	# of houses	Total price (cottage + the ground area, $)	Price per sqm of home ($)	Unit area (sq m)	Furnished	Material	Infrastructure	*Maintenance charge per house ($ per month)*
Novospasskoe	27 km, between the Kiev and Kaluga highways	"Altervest "	190	N/a	350-600	170-600	Not furnished	Bar-shaped, brick and frame	Cultural and sport centers, pool, tennis courts, shops, a complex of consumer services, restaurant, hotel, bar	*300*
Eremino	20 km, Yaroslavskoye	N/a	94 (planned)	$96-300 thousand	600	160-500	Not furnished	Haydite co mpression	None	*N/a*
Timoshkino	21 km, Volokolamskoe	N/a	50	$1,06-1,52 million	Nearby 2000	530-760	Furnished and equipped	Brick	None	*N/a*
Chigasovo	27 km, Rublevo-Uspenskoye	"Most-development "	69 of 75 already built	$840-2100 thousand	2800-3500, the part leases on $10-15 thousand a month	300-600	Furniture, kitchen and sanitary equipment	N/a	None	*N/a*
Razdori	6 km, Rublevo-Uspenskoye	"Cottage"	36	$1,35-2,7 million	3000	450-900	Furniture, kitchen and sanitary equipment, pool, sauna, winter garden	Brick	None	*700*
Krekshkino	24 km, Minskoye	N/a	100	$200-500 thousand	900-1200	208-432	Furnished	Brick	None	*N/a*
Sukhanovo	10 km, Simfereropolskoe	"Ladeks"	Built 48 out of 54 planned	$414-1200 thousand	1200-1500	370-800	Furnished	Brick	Shop, restaurant, park, pool, tennis courts, a kindergarten, cafe-bar, Sport center, platform for a golf	*300*
Krasnovidovo	*35 km, Novo-Rizhskoe*	*NPO "Krasnaj volna"*	*25*	*N/a*	*950*	*180-350*	*N/a*	*Brick*	*None*	*N/a*

Source: Penny Lane Realty, Vesco Realty, C&W S&R analysis

CONSTRUCTION MARKET OVERVIEW

INTRODUCTION.

The market for construction services started its development in Russia more than a decade ago.

Due to increasing demand in both quality and quantity of real estate products, the requirement for professional services of construction and project management companies is growing fast. Investors and developers are looking for such companies to help them in managing sophisticated construction projects based on modern technologies, highly specified materials and engineering systems .

It is obvious that many new market players – the biggest Russian and foreign banks, construction and development companies that are interested in the site development process - are going to access Russian construction market in the coming years.

Also we may expect a spread of development activities in Moscow divisions near **3rd Road Ring** as far as the construction of office and trade centers are concerned. The construction of warehouses is also going to rise in **2006**. According to our projections the total volume of this type of property (**class A, A**- and **B**) may reach **100.000–600.000 sq.m.**

COST OF NEW BUILD.

The table given below reflects the construction costs for different types of property such as offices, retail centers and hypermarkets, warehouses and residential areas.

The cost for the construction of office space is approximately **$ 950-1300 per sq.m.** for **A class** buildings and **$ 800-950 per sq.m**. for **B class** business centers.

The construction rates for retail centers/hypermarkets and warehouses vary from **$ 750-1100 per sq.m.** and **$ 650-950 per sq.m.** respectively.

Construction of elite, medium and business class residential areas makes a separate sector of the real estate market. The construction price ranges from **$ 650** to **$ 1500 per sq.m**. depending on the type and location of the property.

The above construction costs do not include expenses for the pre-design stage, external utilities and obtaining of construction permits and approvals from the relevant City Authorities. The cost of pre-design stage (including preparation of initial permitting and approvals package) depends on the location of the site (division, zones of city) and technical parametres and characteristics of the future building. The lease rent is not included in the construction cost.

The breakdown of costs mentioned above is presented in the following table.

Construction costs

№	Description	Category	Costs per sq.m. excluding VAT, US$
1.*	Pre design stage (incl. IRD – Initial Permitting Documentation)		250 000 - 350 000 per project
2.*	Design Project stage & Working Drawings		55 – 85
3.	Offices	Class "A" Class "B"	950-1300 800-950
4.	Retail	Retail centers Hypermarkets	750-1100 750-1000
5.	Warehousing	Class "A" Class "B"	750-950 650-800
6.	Residential	Elite Business class Medium class	950-1500 750-950 650-750
7.	External utilities		1900-2200 per metre

* *An example of procedures & related costs for items 1. & 2.. can be seen* in ***Exhibit A.***

CONSTRUCTION TIME FRAME.

The average construction timeframe for buildings of total area ranging from 20 000 - 40 000 sq.m is 24 - 30 months, excluding 8- 12 months for the Pre-Design Stage (incl. IRD – Initial Permitting Documentation stage) and 6 – 8 months for Design (Project stage).

In most instances the duration of new construction is directly concerned with the delivery time for the special equipment and materials and probable difficulties in obtaining of initial construction permits and approvals.

PROGNOSYS.

The current rate for development is not exceeding the established municipal development plans, which means that a certain reserve exists for the future construction projects.

We believe that commercial real estate market will continue to see inflow of companies that have proven themselves on the residential market.

Simultaneously, it will observe the enlargement of the retail centers format as well as construction of local hypermarkets.

PRE-CONSTRUCTION COST BREAKDOWN

including all expenses for permitting/ technical conditions, statutory approvals, site investigations, planning and environmental analysis and reports, IRD, Design, expertise and Working documentation stages with all relevant approvals.

(DOES NOT INCLUDE all legal expenses and charges relating to obtaining PPM/ Moscow Government Grant Permission)

Based on Office business park project to be built on free site with normal conditions outside Third Transport Ring in Moscow

Site Total Area 20 000 sq.м (2,0 Ha)

Building Total Area 40 000 sq.м

MAJOR PROJECT STAGES and WORKS	Удельная стоимость за ед. площади здания/ участка	Qantity	Price per work, USD	Price per stage	All process: 100%
1. Initial Site Data obtaining and analysis				56 500	2%
Order& obtaining of Situation/ Site plan			150		
Order& obtaining of Geo/Topographic maps	$1 - 0.8	2,0 Га	16 000		
Order& obtaining of Site plan with existing utilities (Eskiz №2)			250		
Report & research of site geology and hydrogeology	$1	2,0 Га	20 000		
Cadastre data (land-survey report)			350		
Reports on Rights of Natural Light and Sound impact&protection			6 000		
Radiation/ Environmental Impact research			3750		
Any other specialist research if required			10 000		
2. Pre-Design Stage and Order Regulations (Reglament)				24 350	1,2%
Execution of Planning/ urban substantiation (Urban planning basing)	$1	2,0 Га	20 000		
Evaluation of vegetation and Quantity of trees			350		
Minutes/ protocol of Local Committee decision			500		
Protocol of Order Regulation Committee			3500		
3. Initial Permitting Documentation Stage (IRD)				107 700	4,3%
Preparing of Cadastre Site Plan (Eskiz № 1)			350		

Moscow City Architect Committee of Moscow City Planning Dept (GlavAPU MCA), local area Planning Department (APU)			200		
District Authorities (Uprava)			200		
Local Authorities (Prefecture)			200		
Conclusion for Design issued by Moscow General Plan Institute (NIPI GP)			100		
Conclusion of MosGeoTrest Underground Structures Dept			500		
Moscow General Plan Institute (NIPI GP)		2,0 Га	20 000		
Conclusion of OS & VPB Moscow Environmental Committee			1000		
Conclusion of Moscow Environmental Committee			3 750		
Conclusion of Area Land Use Committee regarding Initial Permitting Documentation Stage (IRD)			200		
Moscow Real Estate Committee – Evaluation of existing buildings and premises			200		
Conclusion State Road Police Inspection (GIBDD)			50 000		
Approval of Transport Planning Dept of Moscow City Architect Committee			400		
Radiation/ Environmental Impact Statement	$ 0.4		8 000		
Conclusion of State Sanitary-Epidemiological Service			2 500		
Conclusion of State Fire Marshall Dept			350		
Conclusion State Emergency Committee			3 750		
Moscow City Planning Dept – fee for Initial Permitting Documentation Stage (IRD), incl UPSP, IOO, GZ	$ 0.8		16 000		
4. Obtaining Technical Conditions				175 000	7%
(MosEnergo)	$ 2.5	40 т./м2	100 000		
Heating (water) supply Dept (TeploSet’)	$ 0.75	40 т./м2	30 000		
City Water Supply Dept (MosVodoCanal), water supply and sewerage	$ 0.6	40 т./м2	24 000		

City Drainage Dept (MosVodoStok)			1 000		
City Electricity Supply Dept (MosGorSvet)	$ 0.5	40 т./м2	20 000		
5. Design Stage «Project»				962 000	38,5%
City Requirements/ condition for Design			4 000		
Required Drawings packages	$ 22.0	40 т./м2	880 000		
Transport scheme for site supplier. Plan	$ 0.3		6 000		
Vegetation compensatory arrangements and site landscaping	$ 0.2		4 000		
Fire Certification chapter	$ 0.25		10 000		
Environmental Impact Study	$ 2.6		52 000		
Engineering and technical arrangements in cases of Unforeseeable/ emergency situations (GO CHS)	$ 0.15		6 000		
6. Approvals of «Project» documentation				46 000	1,8%
City Requirements/ Condition for Design			3 000		
Moscow City Architect Committee of Moscow City Planning Dept (GlavAPU MCA), local area Planning Department (APU)			500		
Central Sanitary-Epidemiological Supervision Service			2 500		
State Road Police Inspection (GIBDD)			1 000		
Moscow Committee of Environment (MosComPriroda)			3 500		
MosGeoTrest Underground Structures Department			500		
City Fire Marshall Department (UGPS)			10 000		
Moscow General Plan Institute, Moscow City Architect Committee 2-nd reglament MCA			5 000		
Report and approval of Moscow City Expertise			15/ 20 000		
7. Design and approval of External utilities				119 000	4,8%

project					
Electricity Supply, including sub-local Electricity Transfer Point design	$ 1.35	40 т./м2	27 000		
External Heating Supply, including sub-local Heat Transfer Point and Heat Control Unit design	$ 1.7	40 т./м2	34 000		
Watersupply	$ 1.0	40 т./м2	20 000		
Sewerage	$ 0.8	40 т./м2	16 000		
Drainage	$ 0.8	40 т./м2	16 000		
Telephony			4 000		
Combined General Plan with all external utilities			2 000		
8. Working Documentation Stage with major approvals				1 010 000	40,4%
Design and developing of all required chapters of WD	$ 25.0	40 т./м2	1 000 000		
Approval of Construction Site Plan for major period			5 000		
Approval of WD with FireMarshall Dept and Sanitary-Epidemiological Service			5 000		
Total:				2 500 550	100%

***NB:** Please note that all the above information is indicative and can be used for reference only and is based on the construction market overview. Any particular project for development/construction purposes requires a careful study and consideration of existing planning conditions and site restrictions.*

SCHEDULE OF VALUES

For ease of reference the financial analysis for each property and the valuation summary is included in a separate appendix provided with this report. This allows direct cross reference to financial materials from the text referring to each individual property or group of properties.

A table of contents is laid out below, both for the property schedule and for the financial appendix. The page nubers included in the second table of contents refers to the separate document provided with this report.

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PROPERTIES HELD AS AN INVESTMENT

Hals Tower

"Hals Tower" 5/2, 1st Tverskaya-Yamskaya str., Moscow, Russia		
DATE OF INSPECTION:	16th September 2005	
LOCATION:	Office center is located in prestigious central area of Moscow at 5/2, Tverskaya-Yamskaya street, a short drive from the Kremlin and Red Square.	
DESCRIPTION:	Class B Office building. The building represents a fourteen-story office building plus underground floor with a total area of 12,235.6 square metres.	
TENURE:	Building: Freehold, Land: Leasehold	
CURRENT NET INCOME:	$4'804'192 excluding VAT	
MARKET RENT:	We are of an opinion that all the rental rates payable by tenants can be defined as market rental rates.	
MARKET VALUE:	$39,100,000 excluding VAT. This represents a yield of 13.02%. This compares with current yields for Prime Class A office space of between 10 and 10.5%. Although there have been no transactions in the beginning of 2006 to underpin this level the yields have been established by the sales of Signalny, Brateeva and Global City Shopping Centres – all closed in the first quarter of 2006 at yields in the range of 10.5-11%. Currently, it is our opinion that prime office yields are approximately 0.5% below those for shopping centres. Details of these shopping centres is included in the appendix to this report.	

Property Description

General

The office building was under construction during the years 1999 – 2001. The Act of Acceptance for the building was signed on 25 July 2001. The Russian company Agramix was the general contractor of this project. Special construction works were performed by local subcontractors.

The building represents a fourteen-story office building plus underground floor with the total area of 12,235.6 square metres. The property is located on a land plot of approximately 1,439 square metres, most of which is covered by the building improvements. The land plot is regular in shape and level.

Currently, the Office complex is in a good condition and does not have visible defects and signs of wear-out.

Construction

The building was constructed according to the original architectural project and has a distinguished architectural exterior. Architectural design is a combination of several styles and details allowing this newly-built complex to fit in harmoniously with its historic surroundings.

The facades are completed in the pseudo-classical style of 1950s Gorky street (now Tverskaya street) using modern architectural and construction solution and high-quality materials.

The main construction elements of the building are made of monolith reinforced concrete. Expensive finishing materials are used for interior and exterior of the building. The engineering systems of the building are made entirely of the imported parts and equipment of a high quality. In general, the level of facing and equipment of the building conforms to the international standards for the "B" class.

Specification

The building has the following specifications:

- Ceiling height 3,30 m.
- Roof is monolithic concrete slab with "Rockwool" type heat insulation
- Monolithic concrete foundation, external hydro insulation
- Hot and cold water supply from city mains, two tier water purification system
- Electric supply from built in transformer substation 2 x 1000 kWa (II category of supply under Russian grading system), distribution boards on each floor
- 6 "Sodimas" passenger lifts with load capacity of 1000 kg

Services

We understand that the property has all mains services including water, electricity, gas and drainage, although these were neither tested nor inspected by ourselves.

THE ACCOMMODATION

Floor Areas

We inspected the property and have relied on floor areas of BTI building technical passport #655 from 21.07.2002 and the Ownership certificate #77АБ155127 from 20.05.2003. This is considered to be within normal tolerances of measurement so we have adopted the areas supplied by the Client for our valuation.

We set out below the total area of the property:

Area	Sq m
Total area	12235.9
including	
Garages	1325.4
Office	9988.6
Other	921.9

Car Parking Provision

There is underground parking for 30 cars. In addition to this there is a vertical parking facility for 60 vehicles. This gives a ratio of 1:136 sq m of total area.

Site Area

The Property is located on a land plot of approximately 1,439 square metres, most of which is covered by the building improvements. The land plot is regular in shape and level. The rights for long-term (49 years) lease for the land plot: Agreement with Moscow Land Committee # M-01-022875 dated 28 January 2003.

STRUCTURAL CONDITION AND REPAIR

Condition of the Property

The property appears to be in a good structural condition. Our verbal enquiries of the building's facilities manager indicated that he was not aware of any problems with the property since it has been commissioned.

ENVIRONMENTAL CONSIDERATIONS

We have not carried out any investigations or tests, nor have been supplied with any information from the owner or from any relevant expert that determines the presence or otherwise of pollution or contaminative substances or any other land (including any ground water).

In view of the characteristics and history of the property we would not expect there to be any outstanding environmental or archaeological issues.

TENURE

Property located on the land plot of approximately 1,439 square metres of land, most of which is covered by the building improvements. The leasehold rights for long-term (49 years) lease for the land plot: Agreement with Moscow Land Committee # M-01-022875 dated 28 January 2003.

Ownership certificate for the building #77АБ155127 from 20.05.2003.

TENANCIES

The property is subject to 23 tenancies. The details of the Leases are as below:

#	Tenant
1	BBDO
2	Bussines News Media
3	Western Union
4	Japan Airlains
5	Japan Airlains - higher rent
6	Interplast
7	Magistral Container Lines
8	Maildberry
9	Metromedia CORP USA
10	Midland Resources
11	Edvans Group
12	Rosbeygl
13	Rosexpert
14	Rosexpert (Additional space)
15	Meridian
16	Sistema Telecomunications
17	Scandinavian Airlains (SAS)
18	Trabond Ltd.
19	Rijersy Group
20	Chibo
21	UIT Rakenus (Finland)
22	American Dental Center
23	zenyan PBOUL
24	Raiffassenbank Austria
25	SIM OOO

Valuation Commentary

General

Hals Tower is the only property held as an investment in the portfolio and is a property developed by Sistema Hals close to the centre of the city and fronting directly onto Tverskaya Yamskaya and Gasheka steets – both of which are well known commercial addresses. The property has been consistently fully leased and has a strong track record in the market which make it an attractive property as an investment, particularly as there is a shortage of product for investors to buy currently in the Moscow market and very strong demand.

The property does however have a couple of drawbacks from an investment point of view. The vertical parking arrangement is cumbersome and unattractive to investors and is potentially expensive to maintain. In general there is a lack of parking for the property as a whole. This is not a major issue at the moment with the majority of office properties having insufficient parking within the city – but as parking ratios improve in newer developments the sustainability of the Property may be affected.

Additionally the design is not as efficient as it could be for office uses, with access arrangements and lift provision etc. being far from ideal. All of these factors have been taken into account in the valuation approach

Comparables

As this is an established commercial area there are a number of comparables for rental returns. The most relevant are presented below:

Office	
Name	Rates
Class A	
Capital group on brestskaya	$813 ave.
Ducat place III	$723 ave.
Megapolis	$620 ave.
Chaika plaza	$660 ave.
Actor Gallery	$500 ave. 2003
Class B	
Oruzhejny 15	$600 ave.
ST Investments Building	$700 ave.

These comparables have been taken into account when assessing the perpetuity rents for each of the leased areas. In general it has been assessed that rents are more or less at the top of their current cycle. However – some of the rents are below the current market levels and therefore remains the potential to increase those rents on renewal.

Yields & Capitalisation Rates

Yields have been applied separately to each different tenancy to take account of the unexpired term of the lease, and the strength of the covenants in the lease to take account of different risk and security factors. Each tenancy has been assigned a reversion capitalisation rate based on the projected market yields at the respective dates of reversion. A period has been allowed between tenancies to allow for re-leasing and this has been assessed at 45 days to reflect the shortage of quality office space, in a location of this type, currently available in the market. In addition a long term vacancy rate has been applied to the reversion period. The rate taken is 3% - which is the current market vacancy rate for this sub-market. The location of this property means that it will always have high occupancy rates.

The yields taken reflect the current prime class A yields of 10-10.5%, as outlined above, and have been adjusted from that base to take account of the property itself, the strength of covenant of the tenants and the unexpired lease term in each case.

The valuation assumes that the property is freehold and therefore account has been taken of VAT factors and the potential affect on property tax of increasing the book value of the property (as described above). An adjustment has also been made for the increased income tax allowance available due to increased depreciation.

Financial Analysis

The full financial analysis is included in the schedule accompanying this report.

PROPERTIES IN THE COURSE OF DEVELOPMENT OR HELD FOR DEVELOMENT

Mokhovaya str., 13, bld. 1

Property Name:	Mokhovaya str., 13, bld. 1
Property Type:	Business centre consisting primarily of office and retail
Property Rights Appraised:	Leased fee estate (with perpetual land use rights)
Location:	13 Mokhovaya street, Moscow, Russia
Ownership:	The building improvements are owned by OOO "Manezh 13/1". Land is held by OOO "Manezh 13/1" in leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 NN 289396 dated 16 August 2001. The rights for long-term (49 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-022817 dated 20.01.2003.
Date of Inspection:	September 08, 2005
Location:	The property is located in the Central Administrative District of Moscow, Presnensky region.
Total Floor Area of the Building:	6,415.8 square metres – according to the Moscow State Registration Certificate.

Property Description:	The subject property will comprise a business centre of Class A construction containing approximately 13,540 square metres consisting primarily of office and retail space. Reconstruction and restoration of the existing seven floor property, construction of a nine floor building adjacent and construction of three levels of underground parking to provide approximately 53 parking spacdes. The whole will provide office space of 5,760.9 square metres including the part being reconstructed, includingoffice space of 3,152 square metres in the new building being constructed. The Property is currently in the course of development - the renovation of the existing building is approximately 40% completed, and the new building is approximately 30% completed. The expected date of competition is estimated to be approximately April 2006.
Quality of construction:	Imported finishing materials will be used for the exteriors and interiors of the buildings.
Number of stories:	The building is 7 storeys in height, the new building will be nine storeys high
Land area:	2,660 square metres
Land use specification:	For administrative building
Highest and Best Use As Vacant:	Future development for a mixed-use commercial property such as a business centre.
As Improved:	Finish construction and operate as a business centre with predominantly office space, together with ancillary retail space.
Final Value Conclusion:	**US$49,600,000**

Property Description

Location:

The subject property is located in the central part of Moscow, in the Central Business District, and is in very close proximity to the Kremlin. This place is one of the most prestigious places for offices and it's located near to the major retail streets of city. The Property is surrounded by administrative, retail and public organizations. There is a great view to the Kremlin from the building frontage particularly from the higher floors. The area can be characterized as amongst the most prestigious in Moscow. The Property is located within two to five minutes walk from "Okhotny Riad", "Biblioteka imeni Lenina", "Ploschad Revolutsii" and "Arbatskaya" metro stations.

There is a good vehicle access to the building from Manezh and Tverskaya street, and from there to the major radial and circular routes of the city including Leninsky prospect, Kutuzovsky prospect, Leningradsky Prospect, the Boulevard Ring and the Garden Ring. A location plan is shown below:

Site Description:

The site contains 2,660 square metres of land, most of which will be covered by the building improvements. There is a seven floor building on the land plot which is currently being redeveloped and a new building which is also currently being built.

Improvements Description:

The property will include the existing seven floor building, which was constructed in 1933-1936's, and a new nine floor building adjacent, both of which are currently in the course of devlepment. The seven floor building will have in addition one underground level. The new nine floor building will additionally have three underground levels. The gross area will be 13,540 square metres. There will be 53 parking spaces. There will be three elevators in the existing, old building and four panoramic elevators in the atrium between the new and the old buildings.

Loss factor in the building is approximately 62%. The Developer is planning to spend $40,000,000 for this project including mechanical and engineering systems and finishing materials for the interiors and exteriors of the building.

Valuation Commentary

General

This property occupies one of the best locations in Moscow, right in the heart of the city fronting onto Manezh square and with views directly onto the Kremlin. The junction with the main city street of Tverskaya is just a few metres away and there is a large number of historical buildings and monuments in the immediate area. This is the very centre of the city and the Central Business District and as such this location is one of the very best possible for offices.

The development consists of the reconstruction of an existing older building on the site and the construction of a new building in the vacant area to the rear. The construction works are well advanced with completion of the property to shell & core condition anticipated by the end of the third quarter 2006.

In general the development is well planned. However – there is a less than optimum amount of parking for an office development in this location. This is slightly offset by the availability of public parking in the shopping centre on the opposite side of Mokhovaya, but would nevertheless have a detrimental effect on the marketability of the property on the open market.

Costs

The company is developing this property as its own headquarters building and as such is anticipating a high level of costs – including a high specification of fit-out. A third party purchaser would expect to complete the building from its current condition to shell & core, as is the practice in the market, and allow tenants to execute their own fit out.

Comparables

This area has a very well developed commercial market, and in particular a new Class A building (Romanov Dvor) is currently under construction and is actively being leased very close to the subject property. Therefore there are a good number of comparables available as regards rental returns in the area:

Name	Class	Submkt	SQM	Net Rent	FitO Cost	OpEx	Close Date
Novinsky 31	A	CBD	71	800	Fiited out	$125	29-июн-05
Novinsky 31	A	CBD	285	780	Fiited out	$125	06-сен-05
Novinsky 31	A	CBD	180	780	Fiited out	$125	06-сен-05
Novinsky 31	A	CBD	600				01-сен-05
Usadba Centre	A	CBD	680	770		$100	01-мар-05
Chaika Plaza V on Tverskaya 22B	A	CBD	403.6	630	$300 per space per month	$85	12-июл-05
Chaika Plaza V on Tverskaya 22B	A	CBD	735	630	$300 per space per month	$85	30-сен-05
Actor Gallery (Office)	A	CBD	186				01-сен-05
Millenium House	A	CBD	40	520		$80	10-авг-05
Millenium House	A	CBD	127	500			20-фев-05
Romanov Dvor I	A	CBD	184				01-сен-05
G11	A	CBD	1568				01-июл-05
Romanov Dvor II	A	CBD	830	900	Compensation - $200 per sq. m.	$100	01-май-05
Romanov Dvor II	A	CBD	914	650	TBD	$100	01-мар-05
Romanov Dvor II	A	CBD	767	900	TBD	$100	17-май-05
Romanov Dvor II	A	CBD	425	1000	200	$100	02-фев-05
Romanov Dvor II	A	CBD	1150	650	Compensation - $200 per sq. m.	$100	03-авг-05
The Wave Office Center	A	CBD	14271	560	n/a	$100	01-фев-05
Nikitsky Office Building	A	CBD	1620	550		$100	01-май-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	743.96	800	180 allowance per sqm	$100	03-авг-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	847.44	800	180 allowance	$100	03-авг-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	726.94	850	180 allowance	$105	28-авг-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	660.54	850	180 allowance	$105	28-авг-05
Drovyanoy Bol. Per., 6	A	TAG	354	530	150$ fit-out compensation	$50	15-сен-05
Mosalarko Plaza One	A	TAG	60	550		$100	03-окт-05
Mosalarko Plaza One	A	TAG	150	550		$100	03-окт-05
Mosalarko Plaza One	A	TAG	220	550		$100	01-сен-05

Name	Class	Submkt	SQM	Net Rent	FitO Cost	OpEx	Close Date
Mosalarko Plaza One	A	TAG	230	500		$100	01-фев-05
Mosalarko Plaza One	A	TAG	150	500		$100	01-май-05
Mosalarko Plaza One	A	TAG	250	500		$100	01-фев-05
Mosalarko Plaza One	A	TAG	85	500		$100	01-фев-05
Mosenka Capital Plaza	A	TAG	56	550	FO	$75	21-мар-05
Mosenka Capital Plaza	A	TAG	320	550	FO	$75	28-фев-05
Mosenka Capital Plaza	A	TAG	345	550	FO	$75	21-мар-05

Projected Returns

The projected returns from the project are based on the existing rates available in the market and projected changes as regards these over the course of the development period. These have therefore been assessed as follows:

Base rent summary				
Year	Zone 1	Zone 2		
	Offices	Retail	Underground parking	Capitalization rate
2004	600	2000	3000	13.5%
2005	640	1950	3000	12.0%
2006	650	1950	3000	11.0%
2007	650	1900	3000	10.0%
2008	640	1900	3000	9.5%
2009	625	2000	3000	9.0%
2010	600	2000	3000	8.5%
2011	590	2050	3000	8.0%
2012	590	2100	3000	8.0%
2013	590	2100	3000	8.0%
2014	590	2100	3000	8.0%

These rates are believed to be entirely sustainable, particularly bearing in mind the excellent location and the fact that demand for offices in this area will continue to far exceed supply due to the restricted amount of land available for the development of class A offices in the vicinity of the Property. These rents are in line with those outlined in the comparables table above and reflect the superior location – the views of the Kremlin certianly result in higher rental levels

The table above also shows the exit capitalisation rate, which takes account of the nature of the proposed development, its location and the expected movement of capitalisation rates over time, as discussed above. These rates also reflect that there is less than an optimum amount of parking for this project and this deficit is not entirely offset by the availability of public parking in the nearby shopping centre. With prime Class A office space achieving yields in the range of 10-10.5% at the start of 2006, a small increase has been allowed to reflect the parking situation and the fact that part of the building is a conversion. However – the location goes a very long way to offsetting these factors.

Lease Up and Vacancy Rate

The project is comparatively small and is very well located. It is therefore projected that the Property will be fully pre-leased, up to the long-term vacancy rate, and therefore rents have been assessed on all of the property, after allowing for a reasonable period for fit-out after complletion of the Property. This is in line with the experience of other developments in the area – e.g. Romanov Dvor and Ducat III.

Discount Rate

An unleveraged discount rate of 18% has been used for this project. This is assessed as being the market required rate, taking account the fact that the building is close to completion, its location and overall desirability. It can be seen that there is the ability to earn a significant premium between the current discount rate and the yield for the finished product, even though the devlopment of the Property is well advanced.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

“Pokrovka 40/3” 40 bld. 3, Pokrovka str., Moscow, Russia

“pokrovka 40/3”, 40 bld. 3, pokrovka str., Moscow, Russia		
DATE OF INSPECTION:	21st September 2005	 
LOCATION:	40/3 Pokrovka street Moscow, Russia	
DESCRIPTION:	The subject property will consist of a office-hotel complex of Class A containing 24,169 square metres consisting primarily of office and hotel space. The building is situated on the land plot of 0,74 hectares. The breakdown of the space in the complex is as follows: approximately 14,710 square metres of gross office space; a 85 - room hotel containing 9,459 square metres. The building is currently under construction and is planned to be accepted by the state commission by the end of 2Q of 2006.	
TENURE:	Land: Leasehold	
VALUATION DATE	For this property the valuation date is 1st January 2006 and outstanding costs have been assessed as at that date	
MARKET VALUE:	$47,800,000 excluding VAT. A discount rate of 17% has been used as the project is nearing completion and as the hotel apartment part of the project is subject to a forward purchase agreement and therefore has a definite and defined cashflow. Therefore a lower discount rate has been used than that for Mokhovaya, despite the superior loaction of Mokohovaya, due to the more certain nature of the cashflow.	

Location

General

The property is located in the Central Administrative District of Moscow, Basmanny region at 40 bld. 3, Pokrovka str. a short drive from the Kremlin and Red Square.

Situation

The project is right in the centre of business and cultural life of the capital. The nearest metro stations to the property are Kitai-Gorod and Chistiye Prudy. The project is located on the busy street of Moscow – Pokrovka near Bulvar ring road.

Description

General

The subject property will consist of an office-hotel complex of Class A containing 24,169 square metres consisting primarily of office and hotel space. Currently the project is on 95% hard-construction phase completed.

The building is situated on approximately 0,74 hectares land plot. The land plot is regular in shape and level.

The breakdown of the space in the complex is as follows: 14,710 square metres of gross office space and 85 - room hotel containing 9,459 square metres.

The office-hotel complex is planned to be different stories type of 5-6-7 floors above ground and 2 underground floors.

The building is currently under construction and is planned to be accepted by the state commission by the end of 2Q of 2006.

Construction

The building is under construction according to the original architectural project and from high-quality construction materials.

The main construction elements of the building are made of monolith concrete. The high-class engineering systems are at the beginning of the installation into the building. In general, the level of facing and equipment of the building after the project completion and acceptance of it by the state commission will conform to the international standards for the "A" class.

Specification

The building has the following specifications:

- Roof is monolithic concrete
- Monolithic concrete foundation, external hydro insulation
- Cold water supply from city mains
- The equipment to the building has not been installed yet

Services

We understand that the property has all mains services including water, electricity, gas and drainage, although these were neither tested nor inspected by ourselves.

The accommodation

Areas

In accordance with your instructions, the property was not measured and we have assumed that the measurements that you have provided to us are accurate.

We set out below the total area of the property:

Area	Sq m of the total area
Total area including Total area above ground	24 169 17 033
Total area above ground	7 136

We set out below the property area and its specification by the type of facilities:

Area	Sq m of the total area	Sq m of the useable area
Hotel area	9 459	7,779
Office area	14 710	8,274

Car Parking Provision

There is underground parking in the complex for the following numbers parking slots:

Area	Number of parking slots
Hotel area	17
Office area	101

The number of parking slots for the office area gives a ratio of 1:145 sq m of total area.

Site Area

Property located on the land plot of 0.74 hectares, 3,373 square metres of which are covered by the building improvements. The land plot is regular in shape and level.

The rights for long-term (25 years) lease for this land plot: Land Agreement with Moscow Land Committee # M-01-012905 dated 05th November 1998.

Structural condition and repair

Condition of the Property

The property appears to be in a good structural condition. Our verbal enquiries of the Pokrovka 40/3 project manager indicated that he has not had any structural problems with the property.

Environmental considerations

We have not carried out any investigations or tests, nor have been supplied with any information from the owner or from any relevant expert that determines the presence or otherwise of pollution or contaminative substances or any other land (including any ground water).

In view of the characteristics and history of the property we would not expect there to be any outstanding environmental or archaeological issues.

Tenure

The rights for long-term (25 years) lease for the land plot: Land Agreement with Moscow Land Committee # M-01-012905 dated 05th November 1998.

Valuation Commentary

General

The property is a former hotel and is extremely well located within the Central Business District and mid way between the Boulevard ring at Chistye Prudy and the Garden Ring in a very pleasant area of the city. There is excellent access by car. The metro is a little distance away from the site, making access by this mode of transport a little difficult, but there is a tram line nearby at Chistye Prudy so that there is reasonable access by public transport.

Chistye Prudy is an established higher class residential area within the city, but the location is also extremely attractive for commercial development with a number of successful projects in the immediate vicinity. The office premises should prove to be readily marketable – either for lease and for sale, and they are of a size that is currently extremely attractive to single owner occupiers. A sale to such a purchaser could achieve a premium. However, this is difficult to assess and therefore the analysis herein is for the property as a typical investment.

The company has informed us that the "hotel" element of the property has been sold to be operated as serviced apartments. It is understood that the sales price is US$20 million, payable upon completion of the project, and this has been included in the analysis accordingly.

Costs

Construction of the property is 90% completed and there is an existing general contract. Therefore the costs as provided by the Company have been used in the analysis and are assumed to be accurate. This includes the construction costs and also the fit-out costs for the serviced apartments. This is assumed to be to the specification of the purchaser.

The company has informed us that as at the valuation date (1st January 2006 for this property) the outstanding costs are US$24.6 million

Comparables

Comparable information has been collected in detail for this property (see appendix) and is summarised below

Name	Class	Submkt	SQM	Net Rent	FitO Cost	OpEx	Close Date
Novinsky 31	A	CBD	71	800	Fiited out	$125	29-июн-05
Novinsky 31	A	CBD	285	780	Fiited out	$125	06-сен-05
Novinsky 31	A	CBD	180	780	Fiited out	$125	06-сен-05
Novinsky 31	A	CBD	600				01-сен-05
Usadba Centre	A	CBD	680	770		$100	01-мар-05
Chaika Plaza V on Tverskaya 22B	A	CBD	403.6	630	$300 per space per month	$85	12-июл-05
Chaika Plaza V on Tverskaya 22B	A	CBD	735	630	$300 per space per month	$85	30-сен-05
Actor Gallery (Office)	A	CBD	186				01-сен-05
Millenium House	A	CBD	40	520		$80	10-авг-05
Millenium House	A	CBD	127	500			20-фев-05
Romanov Dvor I	A	CBD	184				01-сен-05
G11	A	CBD	1568				01-июл-05
Romanov Dvor II	A	CBD	830	900	Compensation - $200 per sq. m.	$100	01-май-05
Romanov Dvor II	A	CBD	914	650	TBD	$100	01-мар-05
Romanov Dvor II	A	CBD	767	900	TBD	$100	17-май-05
Romanov Dvor II	A	CBD	425	1000	200	$100	02-фев-05
Romanov Dvor II	A	CBD	1150	650	Compensation - $200 per sq. m.	$100	03-авг-05
The Wave Office Center	A	CBD	14271	560	n/a	$100	01-фев-05
Nikitsky Office Building	A	CBD	1620	550		$100	01-май-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	743.96	800	180 allowance per sqm	$100	03-авг-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	847.44	800	180 allowance	$100	03-авг-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	726.94	850	180 allowance	$105	28-авг-05
Sadovaya-Kudrinskaya, 32 build.1	A	CBD	660.54	850	180 allowance	$105	28-авг-05
Drovyanoy Bol. Per., 6	A	TAG	354	530	150$ fit-out compensation	$50	15-сен-05
Mosalarko Plaza One	A	TAG	60	550		$100	03-окт-05
Mosalarko Plaza One	A	TAG	150	550		$100	03-окт-05
Mosalarko Plaza One	A	TAG	220	550		$100	01-сен-05
Mosalarko Plaza One	A	TAG	230	500		$100	01-фев-05
Mosalarko Plaza One	A	TAG	150	500		$100	01-май-05
Mosalarko Plaza One	A	TAG	250	500		$100	01-фев-05
Mosalarko Plaza One	A	TAG	85	500		$100	01-фев-05
Mosenka Capital Plaza	A	TAG	56	550	FO	$75	21-мар-05
Mosenka Capital Plaza	A	TAG	320	550	FO	$75	28-фев-05
Mosenka Capital Plaza	A	TAG	345	550	FO	$75	21-мар-05

Projected Returns

Projected returns have been assessed for the office portion only, as the hotel is subject to a forward purchase commitment, and based on the comparable information presented, adjusted to take account of the attractive location and size of this property:

Pokrovka, 40 - Rent Summary			
Year	Zone 1	Underground parking	Capitalization Rate
	Office Area		(Exit)
2006	650	4200	12.0%
2007	650	4200	11.0%
2008	650	4200	10.0%

Similarly the capitalisation rates above are for the office portion of the development only and reflect its attractiveness in terms of location, size and class. This will be a highly marketable product when it is completed. Nevertheless due to the proximity of the serviced apartments, the yields use represent a margin above market rates (see above) of approximately 1.5%. This is due to the reduced visibility of the office portion as it is situated behind the hotel part, and the affect on each other of the two differing uses.

Vacancy Rate / Lease up

The office portion of the project is comparatively small and would be attractive to both multiple and individual occupiers. It will be an easy Property to lease and therefore the rental income has been assessed as being receiveable from completion of the fit-out of the Property, subject to the long-term vacancy rate. I.e. it is projected that the office portion of the development will be entirely pre-leased. This is in line with the experience of Office buildings within the Garden Ring, and therefore the CBD – such as Ducat III.

The long term vacancy rate has been assessed as 3%. In line with that used for Hals Tower, and in accordance with current market rates for the CBD. In the future there will still be a limited amount of new development within the Garden Ring, due to a limited number of sites, and therefore it is expected that vacancy rates will remain more or less at current levels.

Discount Rate

An unleveraged discount rate of 17% has been used for this project. This is because there is little construction risk, and because the sale of the service apartments has already been agreed. However – at this stage we have not received a copy of the agreement for the sale.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Rochdelskaya street, 22

Property Name:	Rochdelskaya street, 22
Property Type:	Land Plot of 0,2915 hectares for the Class A office building construction
Property Rights Appraised:	Leasehold Long-term Lease Agreement for 49 years with Moscow Land Committee #M-01-020515 dated 31.01.2002
Location:	22 Rochdelskaya street, Moscow, Russia
Date of Inspection:	October 06, 2005
Location:	The property is located in the Central Administrative District, Presnensky Region of Moscow.
Property Description:	The property is intended for construction of the Class A office building with total area of approximately 14,150 square metres consisting primarily from office premises. According to the preliminary business plan, the breakdown of space in the centre is as follows; about 5,390 square metres of gross office space; 350 square metres for restaurant area, 640 square metres of gross retail space, apartments containing 630 square metres and 6,930 square metres are intended for underground part of 130 parking spaces. The land plot is currently under protection of the city authorities because of the presence of several trees on it. Currently the project is on the stage of transferal the trees to another territory of the city.
Land plot area:	2,915 square metres – according to the Long-term Lease Agreement with Moscow Land Committee #M-01-020515 dated 31.01.2002
Land use specification:	For administrative building.
Highest and Best Use As Vacant:	Future development with a commercial property such as a business centre.
Final Value Conclusion:	**US$9,300,000**

Property Description

Location

The subject property is located in Moscow Central Business District, Presnensky Region, at Rochdelskaya street, 22.

The nearest metro stations are Krasnopresnenskaya and Ulitsa 1905 Goda situated in approximately 15 minutes walk from the property. There is also convenient vehicle access to the property from the all main thoroughfares of the city.

Site Description

The site is currently undeveloped and contains approximately 2,915 square metres of land, most of which will be covered by the building improvements.

Geodesic search of the soil has been completed and at the moment all the results of the search are under analysis.

The land plot is regular in shape but irregular in level: there is a slight slope of approximately 15 degrees in the direction to Rochdelskaya street. All the communications are on the perimetre of the site.

Valuation Commentary

General

The property represents a regularly shaped and undeveloped plot in a well established commercial location close to a number of existing developments and the ongoing large scale new office and residential constructions at *Moscow City*. This area in general is increasing in attractiveness and is an excellent location for a new office project.

Access to the site is good and this western part of the city, just beyond the garden ring and the central business district, is attractive and well sought after, as both a residential and a commercial district.

The existence of protected tress on the site is however a drawback which potentially could be a major obstacle to any third party interested in purchasing the site. It also makes the potential development of the site more complicated and risky.

Nevertheless, there are very few development sites in the city without problems and the general attractiveness of the location is the main driver to its value. The proposed building will be a modern functional office building and this is entirely in keeping with the nature and location of the site.

Costs

In line with the overall approach in this valuation the assessment of costs has been guided by the expectations of a third party purchaser. This therefore takes accounts of the Company's estimates but is not bound to them.

Comparables

In order to establish the projected rental returns from the completed development, comparables in the existing market have been examined in detail:

Class	Total Area	Floors	Sq Metres	Net rental rate	FitO Cost	Parking	OpEx-USD	Close Date
A	54000	8	902	600	$150	$300 u/g	$110	17-Jun-05
A	54000	4	2340	600	$150	$300 u/g	$110	13-May-05
A	54000	5	2340	600	$150	$300 u/g	$110	13-May-05
A	54000	6	2340	600	$150	$300 u/g	$110	13-May-05
A	54000	7	2450	600	$150	$300 u/g	$110	01-Sep-05
A	54000	9	2340	600	$150	$300 u/g	$110	13-May-05
A	54000	10	2340	600	$150	$300 u/g	$110	13-May-05
A	54000	11	1600	600	$150	$300 u/g	$110	18-Aug-05
A	54000	12	300	600	$150	$300 u/g	$110	13-May-05
A	54000	1-atrium	1200	600	$150	$300 u/g	$110	13-May-05
A	54000	2	1700	600	$150	$300 u/g	$110	25-Mar-05
A	54000	3	2340	600	$150	$300 u/g	$110	13-May-05
A	54000	3	521					01-Sep-05
A	54000	12	900	730	$150	Underground - $300 per car space per month	$100	01-Sep-05
A	23626	3	180	577		U/g slots at $350-$400 and 3 surfaces at $250-$300	$120	01-Jul-05
A	23626	3	541	577		3 u/g slots at $250 and 3 surfaces at $200	$120	20-Jun-05
A	31000	1	50	610			$90	30-Jan-05
A	31000	16	637	600			$90	30-Jan-05
A	31000	17	126.5	420			$90	30-Jan-05
A	31000	17	189.7	420			$90	30-Jan-05
A	31000	17	316.8	420			$90	30-Jan-05
A	15640	7	900	625	shell and core	161	$134	28-Aug-05

Due to the relative maturity of this area there is a reasonable level of comparable data. This shows the total size of buildings together with agreed rental levels and the date of agreement. Monthly parking rates and annual operating expenses charges are also shown where this information is available.

Projected Returns

This information has been assessed and adjusted in order to arrive at the projected returns from the proposed project:

Base Rent Summary				
Year	Zone 1	Parking		Cap. Rate
	Class A Offices	Surface	Undergrd	
2004	560	1200	2400	14.0%
2005	565	1200	2400	13.0%
2006	565	1200	2400	12.0%
2007	555	1200	2400	11.0%
2008	550	1200	2400	10.5%
2009	555	1200	2400	10.0%
2010	555	1200	2400	9.5%
2011	555	1200	2400	9.5%
2012	555	1200	2400	9.0%
2013	550	1200	2400	9.0%
2014	550	1200	2400	9.0%

These rates reflect reasonably with the comparable information outlined above and take into account future anticipated market movements in supply, demand and therefore rental levels, in particularly from the new large scale development at Moscow City. As the current average rental rates in the area are approximately US$600 per square metre of rentable space a reasonable discount has been applied as at this stage it is not possible to assess the quality of the space that will actually be delivered.

A class A building of this size and in this location will represent a highly attractive investment due to the lot size, the relative ease of management and the sustainability of the location for the intended use. The Property will also be very attractive to owner occupiers – due to its size, and this would widen the potential pool of purchasers and increase the marketability of the site. The table above also shows the exit capitalisation rates which take account of all of these factors. These are slightly above the current prime yields of 10-10.5% to reflect the location of the property and the degree of uncertainty about the final product.

Vacancy Rate and Lease Up

The amount of leaseable office space will be reasonably limited and the Proeprty is in an established business location. As commented elsewhere the Property is likely to be highly attractive to tenants and to be highly marketable. Therefore it is assumed that the building will be fully pre-leased, subject to the long-term vacancy rate, and in accordance with the observed performance of the market in the area.

Due to the location slightly away from the city centre a long term vacancy rate of 7% has been applied to the Property. This reflects the fact that there will be increase competition in this location as the office projects in the Moscow City Business District are deliverd, principally between 2007 and 2010.

Discount Rate

An unleveraged discount rate of 20% has been used for this project. This is comparatively high for a project of this size and type and in this location, but reflects the potentially difficulties posed by the existence of protected trees on the site and also that the property does not currently have the benefit of the necessary consents for the anticipated development.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Siemens Headquarters, Leningradsky prospect, Moscow

Property Name:	Leningradsky Prospekt, 39 – SIEMENS project
Property Type:	Land plot of 10,040 square metres intended for Class A office complex construction
Location:	Leningradsky Prospekt, 39 Moscow, Russia
Property Rights Appraised:	Valuation was conducted for the shorthold lease rights (until 31 of December 2006) for the land plot with existing construction improvements.
Date of Inspection:	12 of October 2005
Tenure:	The rights for short-term (until 31 of December 2006) leasehold for the land plot: Land Agreement with Moscow Land Committee # M-09-511863 dated 06 October 2004. It is understood that there are outstanding costs in respect of buying out the government share and carrying out construction works for the Moscow City Government amounting to approximately US$48.9 million. This has been taken into account in the valuation calculation.
Property Description:	The subject property will consist of Class A office containing 109,575 square metres consisting primarily of office space. The building will be situated on the land plot of 1,004 hectares. The property will consist of 2 towers: first tower is intended to be SIEMENS property (54,640 sqm). The second tower of 54,953 sqm is intended for the commercial sale. Planned delivery date of the project is the Q3 of 2007. Construction works has been started in Q3 of 2005 (currently the project is on the stage excavation of ditch for foundation).
Final Value Conclusion:	**US$80,500,000**

Property Description

Location

The property is located in the Central Part of Moscow in Sokol Business District, Leningradsky Prospekt, 39 in 10 minutes drive from the Kremlin and Red Square.

Site Description

The subject property will consist of Class A office containing 109,575 square metres consisting primarily of office space.

The building will be situated on the land plot of 1,004 hectares.

The property will consist of 2 towers: first tower is intended to be SIEMENS property (54,640 sqm). The second tower of 54,935 sqm is intended for rent on the commercial office market. Planned delivery date of the project is the Q3 of 2007. Construction works were started in the third quarter of 2005 (currently the project is on the stage excavation of ditch for foundation).

Valuation Commentary

General

There is considerable development activity of commercial properties in this area of the city. Leningradskoye Shosse leads into Tverskaya and is the city's main street. It links the kremlin, right in the city centre, with Sheremetievo airport and from there the highway runs northwest to St. Petersburg and beyond to Finland. The west and north west directions just beyond the city are amongst the most popular residential areas outside Moscow, and this has resulted in the Leningradskoy corridor becoming very popular for commercial development.

The property is therefore well located and offers the potential to create a highly visible landmark office development and hence the interest of Siemens in creating its headquarters building in this location.

It is understood that there is currently permission to build one office tower on the site (the "Siemens tower") and that the Company is currently in the process of expanding this permission to allow for the construction of a second office tower for leasing.

We have not been provided with the agreement between the Company and Siemens. However – it is understood that Siemens have agreed to a forward purchase of one tower together with the payment of a development fee to the Company. We have not been provided with details of the devlepment fee, and it is not included in this analysis. However, the purchase price to be paid is spread over the course of the development, and we have relied upon information provided to us by Sistema Hals in this regard

The second tower is expected to comprise a gross area of 54,935 square metres including underground parking. The valuation of the project has been taken out on the basis of the Company's proposed development scheme.

Costs

Costs have been based on market standard rates applied to the Company's development scheme. Ground works have commenced, although it is understood that final permission for the envisioned scheme has not been obtained.

It is further understood that there are outstanding payments due to the City Government in order to buy out their share of the project and that outher construction works are required as a condition of the investment contract. This cost has been included into our analysis as part of the design and permitting costs.

Comparables

Comparable information has been collected in detail for this property and is summarised below:

Name	Class	Submkt	SQM	Net rent	Fit Out	Parking	Close Date
Ducat Place III	A	BEL	902	600	$150	$300 u/g	Jun-05
Ducat Place III	A	BEL	2340	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	2340	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	2340	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	2450	600	$150	$300 u/g	Sep-05
Ducat Place III	A	BEL	2340	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	2340	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	1600	600	$150	$300 u/g	Aug-05
Ducat Place III	A	BEL	300	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	1200	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	1700	600	$150	$300 u/g	Mar-05
Ducat Place III	A	BEL	2340	600	$150	$300 u/g	May-05
Ducat Place III	A	BEL	521				Sep-05
Ducat Place III	A	BEL	900	730	$150	Underground - $300 per car space per month	Sep-05
Ducat Place II	A	BEL	180	577		U/g slots at $350-$400 and 3 surfaces at $250-$300	Jul-05
Ducat Place II	A	BEL	541	577		3 u/g slots at $250 and 3 surfaces at $200	Jun-05
Panorama Center	A	BEL	50	610			Jan-05
Panorama Center	A	BEL	637	600			Jan-05
Panorama Center	A	BEL	126.5	420			Jan-05
Panorama Center	A	BEL	189.7	420			Jan-05
Panorama Center	A	BEL	316.8	420			Jan-05
Mercedes-Benz Plaza	A	SOK	900	625	shell and core	161	Aug-05

Projected Returns

Projected returns have been assessed for that portion of the office building that will be speculative and available for lease on the open market. This is based on the market infotmation that is available and Cushman & Wakefield Stiles & Riabokobylko's forward looking projections. On the basis of this the projected returns are as follows:

Leningradskij, 39 - Rent Rate Summary				
Year	Zone 1	Zone 2	Underground parking	Cap. Rate
	Siemens Tower	Sistema Hals Tower		
2005	0	550	3000	12.0%
2006	0	550	3000	11%
2007	0	550	3000	10.0%
2008	0	550	3000	9.5%
2009	0	550	3000	9.0%
2010	0	550	3000	8.5%
2011	0	550	3000	8.0%
2012	0	550	3000	8.0%
2013	0	550	3000	8.0%
2014	0	550	3000	8.0%

As the property is already under construction, and the rents will be fixed at the time of completion, which should not vary significantly from what is planned, the variation of rents over time is not significant in terms of this analysis and therefore have been treated as remaining constant.

Although market rents are currently in excess of US$600 per square metre on a triple net basis, the rents used in this analysis have been projected at a lower basis. This therefore takes account of the location away from the city centre – although the Leningradsky corridor is a very popoular commercial location. The projected rents, at more than 10% below the all of Moscow current class A market average, should therefore be highly achievable.

Capitalisation Rates are expected to compress over the time horizon of the project and they have been assessed to take account of the location of the project away from the city centre, and that only half of the project will be available as an investment. How the two joined projects would interact, or to what degree efficient separation would be possible is not clear at this stage as detailed drawings have not been made available to us. These capitalisation rates have been assessd at between 0.5% and 1% above the current prime market yields. This reflects the location of the property away from the city centre, which has an upeard effect on the yieild. However –as the bulidng design is of a very high quality this should have a limiting effect on this upward pressure on the yield.

Vacancy Rate / Lease Up

The office are available for speculative leasing of 32,000 square metres is of the same order of size as Ducat III, albeit in a more peripheral location. However, a similar leasing experience is expected – particularly bearing in mind the highly competitive rents that have been included in the analysis and the fact that the presence of Siemens in the next door tower will act as an anchor and enhance the attractiveness of the project as a whole. Therefore the project is expected to be fully pre-leased, up to the long term vacancy rate, and this has been taken into account in the cashflow and the valuation analyis.

As with Hals Tower the vacancy rate has been assessed at 3%. This reflects the attractiveness of the location and the anchor effect of Siemens. This is slightly above the current market rate for the best Class A offices in the market – and this property will fall into that bracket.

Discount Rate

An unleveraged discount rate of 17% has been used for this project. Ground works are under way although it the final design has not et been completed. However – the fact that a significant part of the property is the subject of a forward purchase agreement significantly reduces the risk. Full details as regards this purchase agreement may well result in a further reduction in the risk profile and therefore the discount rate that is considered appropriate.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Trudovaya" Moscow region, mitishinsky district, house development trudovaya, Russia

"TRUDOVAYA", MYTISHINSKY DISTRICT, Moscow REGION, Russia		
DATE: OF INSPECTION	23rd September 2005	
LOCATION:	Trudovaya Development in the Mytishinsky district of Dmitrovskoe highway in the north of Moscow region, Russia.	
DESCRIPTION:	89 two-storey cottages for rent.	
TENURE:	Land: Freehold	
CURRENT NET INCOME:	The Property is in the process of being leased up.	
MARKET RENT:	We are of an opinion that the Market Rental level is fairly represented by the sum of US$5,400,000.	
MARKET VALUE:	$27,650,000 excluding VAT . Subject to the lease up of the Property this represents and intial yield of 19.5%. This is a very competitive level for a property of this type, when it is compared with available commercial investments within Moscow itself – with the prime investement yields for offices, warehouses and retail all lying in the range of 10-11%, based on transactions taking place in the first quarter of 2006.	

Location

General

Land plot is located 34 kilometres to the north from Moscow Circle Road, at Dmitrovskoe Highway. Short drive from Volen, Yakhroma, and other Mountain Ski resorts.

Situation

The complex is located in attractive environment – mixed birch and pine forest, lake on the territory of the complex, in the territory where previously were placed administrative reservations.

Description

General

The property was in the course of development till 2nd quarter 2005. Currently it provides 89 residential units of three types, from 160 square metres to 200 square metres and one administrative building of 792 sq metres for supporting uses (convenience store, restaurant, leisure, club etc.). The buildings represent 89 a two storied cottages (totalling 17 061 square metres): 33 cottages of 163 square metres each; 21 cottage of 180 square metres each; and 35 cottages of 202 square metres each. Currently, title documents for subject real estate objects are in reconciliation process, which expected to be finished by January 2006.

Construction

The buildings were constructed according to the original architectural project and have a distinguished architectural exterior. Architectural design is a combination of several styles and details allowing this newly-built complex to fit in the requirements of high class residential complex.

The facades are completed in modern style, using modern high-quality materials.

There are several types of buildings, main construction elements of which are made of Brick and wood.

Specification

The buildings have the following specifications:

Type 1. Brick cottage of 153,3 square metres (houses ## 33, 34, 53, 57, 59)

- Basement height 600 mm.
- First floor height 3 metres.
- Second floor height 3 metres.
- Build-up area 131.5 square metres.

Type 2. Brick cottage of 154.3 square metres (houses ## 27, 30, 31, 64).

- Basement height 600 mm.
- First floor height 3 metres.
- Second floor height 3 metres.
- Build-up area 131.5 square metres.

Type 3. Brick cottage of 154.3 square metres (houses ## 26, 29,32, 58, 60, 61, 62)

- Basement height 600 mm.
- First floor height 3 metres.
- Second floor height 3 metres.
- Build-up area 131.5 square metres.

Type 4. Wood-frame cottage of 159 square metres (houses ## 1, 2, 3, 14, 15, 16, 19, 20, 21)

- Basement height variable.
- First floor height 3 metres.
- Second floor height 2.7 metres.
- Build-up area 100.02 square metres.

Type 5. Wood-frame cottage of 163 square metres (houses ## 41, 43, 44, 45, 46, 48, 51)

- Basement height 600 mm.
- First floor height 2,885 metres.
- Second floor height variable.
- Build-up area 110.03 square metres

Type 6. Sawn timber cottage of 163 square metres (house # 81)

- Basement height 600 mm.
- First floor height 2,885 metres.
- Second floor height variable.

- Build-up area 110.03 square metres

Type 7. Brick cottage of 183.3 square metres (houses ## 35, 36, 37, 38, 39)

- Basement height 600 mm.
- First floor height 3 metres.
- Second floor height 3 metres.
- Build-up area 147.7 square metres

Type 8. Brick cottage of 183.3 square metres (houses ## 63, 65, 67)

- Basement height 600 mm.
- First floor height 3 metres.
- Second floor height 3 metres.
- Build-up area 147.7 square metres

Type 9. Brick cottage of 183.3 square metres (houses ## 28, 66)

- Basement height 600 mm.
- First floor height 3 metres.
- Second floor height 3 metres.
- Build-up area 147.7 square metres

Type 10. Wood-frame cottage of 185.7 square metres (houses ## 42, 47, 49, 50, 54, 55, 56)

- Basement height 500 mm.
- First floor height 2.997 metres.
- Second floor height 3.090 metres.
- Build-up area 141.0 square metres.

Type 11. Wood-frame cottage of 183.6 square metres (houses ## 4, 5, 12, 13,)

- Basement height variable.
- First floor height 3 metres.
- Second floor height 2,700 metres.
- Build-up area 128.8 square metres.

Type 12. Brick cottage of 205.2square metres (houses #40)

- Basement height 600 mm.
- First floor height 3 metres.

- Second floor height 3 metres.
- Build-up area 146.9 square metres

Type 13. Wood-frame cottage of 206.9 square metres (houses ## 6, 7, 8, 9, 10, 11, 17, 18, 22, 22a, 83)

- Basement height 1.238 metres.
- First floor height 2.984 metres.
- Second floor height 2,700 metres.
- Build-up area 128.8 square metres

Type 14. Wood-frame cottage of 202.9 square metres (houses ## 52, 68, 69, 70)

- Basement height 600 mm.
- First floor height 3.104 metres.
- Second floor height 3,064 metres.
- Build-up area 130.1 square metres

Type 15. Sawn timber cottage of 202.9 square metres (houses ## 423, 23a, 23b, 25, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 82, 84, 85, 86)

- Basement height 600 mm.
- First floor height 3.104 metres.
- Second floor height 3.064 metres.
- Build-up area 130.1 square metres

All cottages have heating systems (air heating in wooden cottages, hot water heating in brick cottages), telephone and internet lines, purification system (either one system for 2 cottages of an individual system). All houses are available for rent without furniture, with kitchen and bathroom fixtures).

Services

We understand that the property has all mains services including water, electricity, telecommunication, gas and drainage, although these were neither tested nor inspected by ourselves.

The Accomodation

Floor Areas

We inspected the property and have relied on information, provided to us by the client, and on cadastral plan of the land plot # 12.1/03-3162 dated May 14th 2003.

We set out below the total area of the property:

Area	Sq m
Total area of the land plot	155 100
Total area of constructions	17 060.9
Including	
Residential premises	16 268.9
Administrative and Accommodation constructions	792.0

Car Parking Provision

Each house has surface parking for 2 cars.

Site Area

Property located on the land plot of 155,100 square metres, which is covered by cottages and natural foreast. The land plot is irregular in shape and level. The land plot is held freehold.

Valuation Commentary

General

Residential developments of this type are currently very popular in Moscow – either for rent or for sale. The key to their success lies principally in location which should offer a pleasant living environment in a rural or semi-rural location, combined with relative ease of access to Moscow and the city centre. This can be very difficult to achieve, due to the prevalence of traffic congestion in the city itself and on the major approach routes from outlying areas Good modern communications are also a significant benefit as they reduce the need to travel to the city.

The property is well located. The surroundings and the environment are very appealing with trees and a small lake and there is a good variety of houses, both wooden and brick, of Swedish design.

The houses also have the benefit of modern communications and modern facilities. However, in some cases the houses are not optimally orientated with relationship to the environment and the path of the sun, a fact that could have easily been avoided.

The location is very good. Dmitrovskoye is an excellent quality highway that provides comparatively fast travel to and from Moscow and MKAD, the Moscow orbital motorway, and the distance of 34 kilometres from the edge of the city is no hindrance. There are a number of leisure attractions in the district which further enhance its attractiveness as a residential location.

Costs

Construction of the properties is completed. It is also understood that all permitting issues have now been settled and that the property therefore has clean title, is available for leasing and could be presented for sale as an investment product..

Comparables

As many comparables as possible have been analysed, although projects of this type are usually for individual houses for sale, rather than providing a complex of properties for lease. Sales comparables are less relevant in this context as the legal tenure of the property severely restricts the ability to sell the houses separately. Hence it is considered most appropriate to look at the rental value of the property and to consider it as an investment.

There are a number of similar types of development closer to, and within the city limits of, Moscow. These include Pokrovsky Hills, Rosinka and others. Pokrovsky Hills is currently being offered for sale by Hines and it is understood that offers are being received in the range of 10-10.5% for the Property. This is a slightly different type of proeduct in the the majority of the tenants are corporates, multi-nationals or foreging emabassies and therefore has a similar relationship to commercial investments. In addition Trudovaya remains to be leased up. Therefore the yield, discussed below, has been assessed at a significantly higher level than the bids being generated for Pokrovsky Hills.

Projected Returns

This information has been assessed in conjunction with the company's projected returns and the rates achieved for short term, unregistered leases, that have already been executed at the property, in order to arrive at the following expected rental rates.

Base Rent Summary			
Year	Zone 1	Zone 2	Cap. Rate
	Residential for Lease	Administrative Block	
2005	325	175	16.0%
2006	325	175	15.0%
2007	325	175	14.0%
2008	325	175	13.5%
2009	325	175	13.0%
2010	325	175	12.5%
2011	325	175	12.0%
2012	325	175	11.5%
2013	325	175	10.5%
2014	325	175	10.0%

In addition it is assumed that tenant will pay service charges to cover the management of the complex as a whole and that therefore the landlord will have no expenses in this regard.

The capitalisation rates reflect the comparative attractiveness of this type of investment *vis a vis* benchmark commercial investments. The nature of the development means that it will be more management intensive as lease terms will be shorter, and possibly seasonal, effecting cashflow patterns. There is therefore an inherent higher risk level. However – properties of this type are in high demand from occupiers and the returns are therefore highly sustainable. Although – due to the immaturity of this type of market and the lack of historical information for comparison, it has been assumed above that the rental returns will stay constant over time, there is the potential for rental growth.

Vacancy Rate and Lease Up

The Property has been projected to reach 50% occupancy by the end of 2006, with a steady lease up throughout the year, with continued similar progression to 80% by the end of 2008. Therefore, full occupancy is not expected to be reached prior to the assumed sale of the Property. The exit sale price has been assessed based on the rent from this 80% occupancy, and therefore the long term vacancy rate has been assessed at 20%. This reflect the potential for there to be a degree of seasonality about the occupation, with some tenancies being for the summer months only. Nevertheless – this approach is considered to be conservative but justifiable.

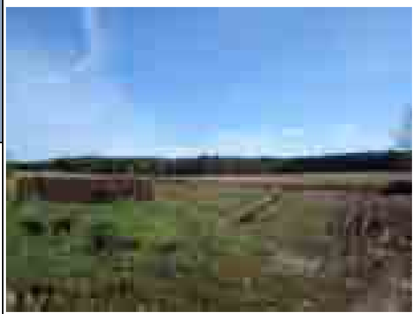
Discount Rate

An unleveraged discount rate of 15% has been used for this project. This is in line with the exit capitalisation rates used above. As discussed the reduction in income due to the exgtended elase up period assumed has already been included in the valuation calculations.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

«AVRORA" 18th Kilometre of Dmitrovskoe highway, Mitishinsky district, village stepan'kovo, moscow region russia»

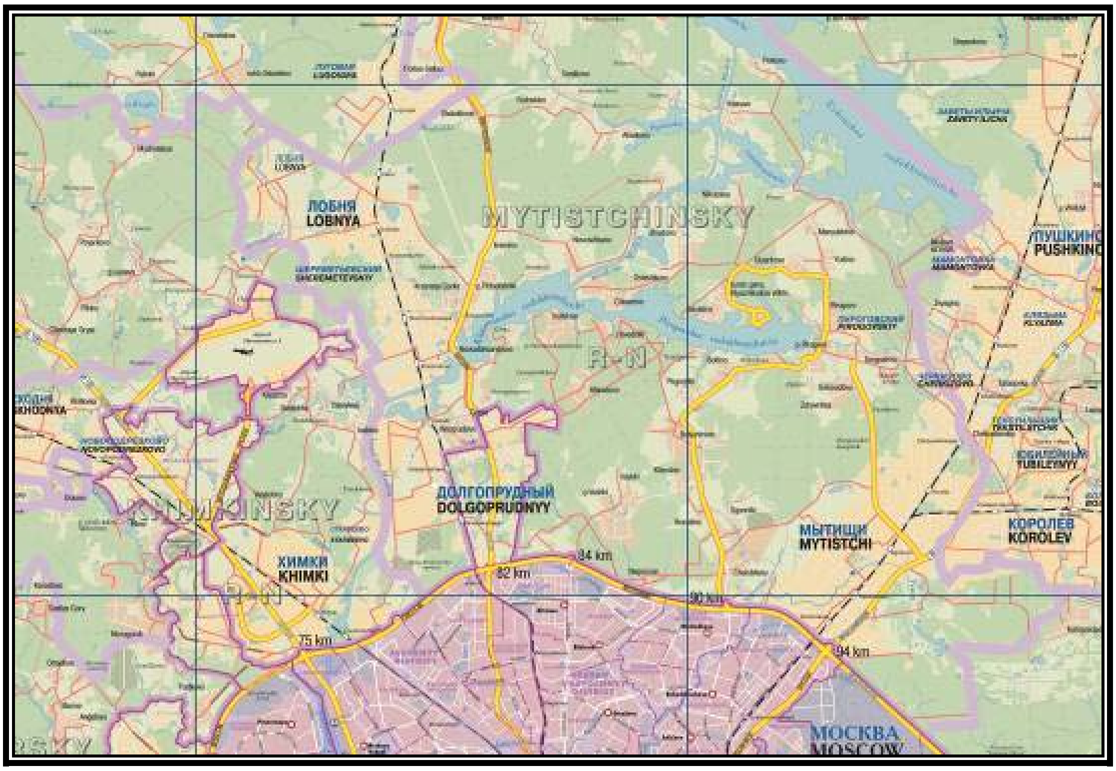
"AVRORA" 18th kilometre of "dmitrovskoe" highway, "mitishinsky" district, village "stepan'kovo".		
DATE OF INSPECTION:	22nd September 2005	
LOCATION:	The Property is located approximately 6 km east of the 11 km marker on the Dmitrovskoe highway north of Moscow at Stepan'kovo, in the Mytistchinsky district of the Moscow region. This village lies 18 km north of MKAD, the Moscow orbital highway.	
DESCRIPTION:	The property comprises a 78,5 ha land site. Its existing use is vacant land providing up 61 ha. which is being divided into 147 separate land plots, provided with access and utilites, for residential development by the individual purchasers. 28 of these plots have already been sold.	
TENURE:	Land: Freehold	
MARKET VALUE:	$45,000,000 excluding VAT	

Location

General

The property is located approximately 6 km east of the 11 km marker on the Dmitrovskoe highway north of Moscow at Stepan'kovo in the Mytistchinsky district of the Moscow Oblast. The lies 18 km. north of MKAD, the Moscow orbital highway.

The Dmitrovskoe highway is a four lane highway and provides fast access from MKAD and the centre of Moscow. A location plan is attached below.



Communications

To access the site from the Eastbound carriageway it is necessary to make a U-turn, with the nearest legal place (Eremino village) for this lying 6 kilometres east of the site.

When leaving the site it is necessary to travel west. In order to travel in the direction of Moscow it is necessary to make a U-turn with the nearest location being currently 5 kilometres west of the site.

Despite these drawbacks access to the site is reasonable. The Dmitrovskoe highway is a fast highway without traffic lights or regulated junctions and MKAD is within easy reach and from there the city of Moscow itself, the major airport of Sheremetievo and the nearest train station at Lobnya.

Situation

The land plot is located in a fast developing residential area in an attractive environment, near forest and the Moscow channel. The most prestigious cottage complexes are located at Rublevo-Uspenskoe highway, but due to traffic difficulties and very high prices for land, other directions have been developing actively over the last few years. According to our market research Dmitrovskoe highway is now one of the most popular directions for construction of cottage settlements.

The Property is bordered on the west, north and east by forest and on the south by the Moscow-Volga channel (see site plan below).

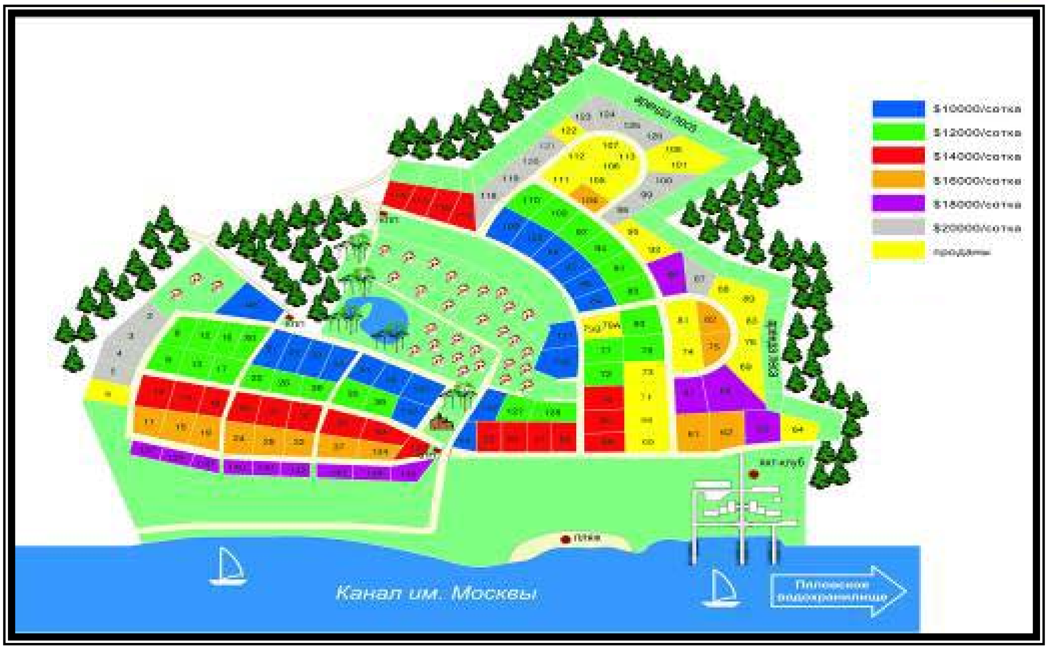
Description

General

The property comprises a 78,5 ha. land site. The property is in the course of development and is to be developed in accordance with 2 existing planning permission dated October 2003 for construction of individual residential units on 30 ha and 48,45 respectively. It is assumed that all infrastructure works will be finished by 2nd quarter 2006. It is intended to sell individual land plots with full infrastructure so that purchasers can construct houses in accordance with their own requirements.

Buildings

There are currently no buildings on the site with exception of temporary structures in connection with the construction works and electricity sub-station. Construction has started in accordance with the consents outlined below, and currently preliminary ground works are under way.



Utilities

The property will have all main services, such as hot and cold water, canalization, telephone and internet lines, security i.e. video cameras and guards.

It is understood that the necessary utilities are not currently connected to the site.

The site

Site Area

The land in total extends to a large area adjoining the village of Stepan'kovo on the west. The land has been used for agricultural purposes. The land plot is regular in shape and divided into 147 units.

We set out below the gross areas of the property and prelimenary sales prises provided us by the Client.

Valuation Commentary

General

This project seeks to take advantage of the current demand from Muscovites for purchasing their own plot of land in rural areas for construction of houses to their own demand and to meet their own requirements.

As with Trudovaya above, the success of projects of this type rests on their location, and this property certainly benefits from an excellent location. The total land plot lies around an existing village and is surrounded by forest on three sides, with the fourth boundary being made up by the Moscow Canal. The environment is excellent and is also easily accessible from Moscow which further adds to its attractiveness.

The concept for this project is straightforward and is highly suitable for this site due to its size. Building houses for sale would have been considerably more complicated and would have required a much greater level of investment. The size of the site and the comparative remoteness of utilities of sufficient capacity, and the necessity to construct a new access road meant that installation of the necessary infrastructure has been far from straightforward – but the project does allow for rapid returns from the investment undertaken.

Marketing of the project has already commenced, and the necessary infrastructure works are well advanced. The response to the marketing has been very positive and confirms the high level of demand for the site

Costs

Infrastructure works are reasonably well advanced, but there remains outstanding a number of costs. The details of these costs have been provided by the company. As the works are already underway and the costs have been established it is not considered necessary to make any adjustments to the figures provided. The outstanding costs are therefore circa US$24 million. Existing financing is already in place, and therefore in this instance the site specific financing costs have been taken into account in the cashflow analysis.

Comparables

The most direct comparables are provided by the sales that have already taken place (or reservations of space) as outlined above. In addition there a limited number of other sites nearby where similar sales of individual sites with infrastructure provided is taking place:

Name	Sales Price
Lugovaya	$10 000 per sotka
Smorodinka	$9 330 per sotka
Nekrasovsky	$3 000 per sotka

A *sotka* is a Russian measurement of area which is equal to 100 square metres (i.e. there are 100 sotkas per hectare.)

Of these three properties the first two are considered to be the most directly comparable and therefore support the sales prices being achieved of in excess of US$9,000 per sotka.

Projected Returns

The projected returns outlined in the financial analysis are based on the comparable information outlined above as well as the Company's projections which it is understood have been prepared in conjunction with their external marketing company. These projected returns are believed to be achievable within the specified time period, particularly bearing in mind the fairly short time horizon covered by the analysis.

Discount Rate

A discount rate of 15% has been used for this project. This reflects the comparatively low level of risk and investment that the project now requires and the sustainability and achievability of the projected sales prices within the planned time horizon. This also takes account of the fact that the tenure of the land is freehold rather than leasehold.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Zdravnitsa

Property Appraised:	83 individual cottages.
Location:	Moscow Region, Odintsovsky District, Residential Community Zdravnitsa. Moscow Region Russia
Owner of Record:	Open Joint Stock Company "Mosdachtrest"
Date of Inspection:	31st October 2006
Purpose and Intended Use of Appraisal:	The purpose of this appraisal is to estimate, as of effective date, the market value of the above property (as defined herein).
Interest Appraised:	Ownership rights for the improvements, subject to a 49 year lease right for the land, renewable for an additional 49 years with attendant use rights of common facilities and amenities. **Hypothetical Condition:** For the effective transfer of ownership rights to these units, and the elements of land necessary to support them, a structure conveying both the right of access and use of these common elements and the obligation to contribute to the expense of their maintenance must be provided. The value we have surmised is dependent on the hypothetical condition that these rights could be created and conveyed.
Land Area:	The land plot is 16.9 hectares, placed 17 kilometres from Moscow. Site features: Convenient access (Minskoe or Kievskoe highway); rail road. Forest area on the site and around it. Ponds on the site. The site is surrounded by similar cottage complexes including availability of food and consumer goods stores.
Land Use Specification:	The owner plans to develop residential complex for rent.
Improvements:	The project covers the construction of 83 individual cottages. The size of an average cottage is 200 square metres. All cottages will be furnished and equipped with built-in appliances and an air-conditioning system. The total area of the buildings is projected to be 16,600 square metres. The construction works have commenced, but have been frozen for some considerable time.

Approximate Year of Completion:	III quarter 2008
Gross Building Area:	200 square metres, area of average cottage in the complex.
Property Condition and Appeal:	New construction of high standard residential quality. The appeal to the existing market should be among the best available for western standard housing in Moscow Region.
Market Value	US$6,900,000
Market value Price per Unit	The cottages are intended for rent. The projected returns are $300 per square metre per year (including VAT) or an average of approximately $5,000 per cottage per month.

Valuation Commentary

General

The concept for this project is very similar to that for Trudovaya detailed above. The property is well located to the west of Moscow in one of the most popular areas for the owning or renting of country houses amongst higher class Muscovites. The setting is very attractive and offers the ability to create an extremely pleasant development.

The site is within easy commuting distance of Moscow and is easily accessible, which should make the finished development highly marketable.

However, the development of the site commenced sometime ago but was frozen part way through. This inevitably raises questions as to why the development was not completed and as to why it has been lying idle for a long period of time. This, potentially, could reduce the appeal of the site in its existing condition and therefore its current market value. This has been taken into account in the valuation analysis – particularly in assessing the most appropriate discount rate.

Costs

The costs reflect the current condition of the property. It is understood that for at least some of the existing constructions work could progress from the existing base. Some of the utilities have been installed, but there remains an amount of work to be done – in respect of which costs have been supplied to us by the Company.

Comparables

Although the location is slightly different – the comaparables laid out for Trudovaya above are also considered relevant for this property due to the relative lack of this type of property offered for rent.

Projected Returns

The projected returns outlined in the financial analysis are based on the comparable information outlined and are adjusted to take into account the expected outstanding development period – assuming that construction was recommenced in a timely fashion:

Base rent summary		
Year	Zone 1	Capitalization rate
	Cottages for Rent	
2005	300	16.0%
2006	315	15.0%
2007	315	14.0%
2008	315	13.0%
2009	325	12.5%
2010	325	12.0%
2011	300	11.5%
2012	300	11.0%
2013	280	10.5%
2014	275	10.0%

The capitalisation rates are considered appropriate for a completed development of this type, bearing in mind the location and that the tenancies are likely to be of a comparatively short term. The se capitalisation rates are significantly higher than the offers currently being generated for Pokrovsky Hills (see discussion under Trudovaya above). However – this reflects the fact that it has been assumed that the cottages could be largely pre-leased, subject to the long term vacancy rate of 3%. This is also reflected in the discount rate used for the project as a whole, as outlined below.

Discount Rate

A discount rate of 20% has been used for this project. Although in theory the development of this project appears fairly straightforward, the fact that there has been little progress for some considerable time raises questions as to the risk profile of the property.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Serebryanny Bor

Property Name:	Serebryany bor
Property Type:	Residential
Property Rights Appraised:	Valuation was conducted for the established property rights on the Buildings and for the long-term use rights of the land.
Address:	Khoroshevsky Serebryanny Bor Moscow, Russia
Ownership:	The building improvements are owned by "Mosdachtrest". The land of 247,568.8 square metres is in the long-term leasehold of OAO "Mosdachtrest". The rights for long-term (49 years) lease for the land plots: Agreement with Moscow Land Committee # M-08-008274 dated 03.03.1997 for the land plot of 73,856.9 square metres. Agreement with Moscow Land Committee # M-08-008214 dated 25.02.1997 for the land plot of 91 ,65.1 square metres. Agreement with Moscow Land Committee # M-08-008210 dated 25.02.1997 for the land plot of 51,580.2 square metres. Agreement with Moscow Land Committee # M-08-008216 dated 25.02.1997 for the land plot of 30,366.6 square metres.
Date of Inspection:	23 of November 2005
Location:	The property is located in the North West District of Moscow, Horoshevo-Mnevniki region.
Property Description:	The property consists of 61 residential buildings not reconstructed and 41 residential buildings reconstructed by OAO "Mosdachtrest". The total area of reconstructed buildings is 7,828.3 square metres and the total area of not reconstructed buildings is 15,157.81 square metres.
Total Area of the Buildings:	The total area of reconstructed buildings is 7,828.3 square metres and the total area of not reconstructed buildings is 15,157.81 square metres.
Land plot total area:	247,568.8 square metres
Final Value Conclusion:	**US$52,290,000**

Property Description

The property comprises 61 residential buildings that have not been reconstructed and 41 residential buildings reconstructed by OAO "Mosdachtrest". The total area of the reconstructed buildings is 7,828.3 square metres and the total area of the non-reconstructed buildings is 15,157.81 square metres.

The area of an average cottage is approximately 225 square metres. The cottages are equipped with built-in appliances and air-conditioning systems, 2-3 bedrooms, 12-20 square metre kitchens, 2 bathrooms, and extra areas (porches and stanzas).

In accordance with modern requirements of residential premises, cottages are equipped with engineering and telecommunication systems such as:

- Hot and cold water
- Heating
- Electricity
- Canalization
- Phone
- Television (including cable)
- Fire alarm system

The territory is secured and has a video monitoring system.

Serebryany Bor is an artificial island, formed by the Moskva river. It has been a favorite place of rest for Moscovites since the 1930s. The total area of the land plots is 247,568.8 square metres according to the long-term land lease Agreement swith Moscow Land Committee.

A lot of sports and recreation facilities are pavailable within a short walking distance from the properties (such as: Park Krylatskoe with row channel, complex of Olympic Cycle Track, fields for bow shooting and other sport facilities).

The surrounding areasare also a good place for mountain skiing and sky-surfing.

Land Plot Description

The site contains 247,568.8 square metres of land, most of which is covered by the building improvements.

Location

The subject property is located in the North West District of Moscow in Serebryany bor. The complex is surrounded by a park zone and the Moscow river. The subject is located in a well-known area which is very popular among visitors especially in summer. Being ecologically attractive it has become very prestigious and famous among Moscow citizens.

There is good vehicle access to the area from MKAD and from Marshala Zhukova Prospect. It is also surrounded by Volokolamskoe and Rublevskoe highways.

The nearest metro stations to the property are Polezhaevskaya, Shukinskaya and Oktyabrskoye Pole – all of them located within approximately 15 minutes by public transport.

Valuation Commentary

General

Serebryanny Bor is one of the most sought after residential locations in Moscow situated essentially on an island formed by a loop in the Moscow Rive and by artificial channels. Vehicular access is restricted and there is a very pleasant environemtn with a mixture of trees and water which allows for living close to the centre of the city, whilst giving the feelingof being in the countryside.

Therefore some of the most expensive residential real estate in the city is located in this area. The Company owns a number of buildings within the area – some of which are newly constructed and some of which are older. These are all leased out for private occupation. It has not been possible to internally inspect these properties, and plans and other information has not been provided. Therefore, based on this limited information a valuation has been carried out for the portfolio as a whole.

Therefore the valuation has been treated as a performing asset for investment purposes.

Tenancies

Currently the tenant roster for the property is as follows:

Country Houses in Serebryany Bor reconstructed by OAO "Mosdachtrest"

- Number of Properties – 41
- Total Area - 7828.32 sqm
- Rental payment - 330198.2 USD/month (Excluding VAT and OpEx)
- Opex= $7.70 Including VAT

Not reconstructed country houses OAO of "Mosdachtrest" in Serebryany Bor

- Number of Properties - 41
- Total Area (According BTI) - 15158.81 sqm
- Rental payment - 206190.5 USD/month (Excluding VAT and OpEx)

Valuation

Therefore, taking into account the privileged long term tenancies at concessionary rents the monthly net rental income is US$536,388. There is zero vacancy and in fact there is a waiting list for houses.

The capitalisation rate, at this stage, will be affected by the fact that approximately 40% of the buildings do not currently have state commissioning, and some of the buildings have been constructed in contravention of the allowable guidelines – e.g. building height etc. Therefore – it is considered appropriate to apply a yield of 14% to the net income (see above) to take account of the fact that the majority of the leases are very short, there are quite a few concessionary tenancies and the fact that the legal ownership of the buildings themselves is not clear in many cases. This yield is applied to the portfolio of residential properties as a whole because, due to the nature of the legal title (where it exists) it would be very difficult to sell the houses individually.

The valuation has been further adjusted to take account of the fact that a number of the Properties are rented at below Market Rent, some of them significantly below, particularly where they are occupied by individuals connected with the Company. We have been informed that all of these concessionary tenancies are being brought to an end or, at the very leaset, that they would be capable of termination in the event of sale.

It is therefore considered that the full Market Rental Value of the Prpeorty is $610,000 per month, or $7,320,000 per annum and this figure has been capitilsed using the yield described above, using the direct capitalisation method as Service charges are elvied in addition to the rent and are assume to conver costs, in order to arrive at the Market Value.

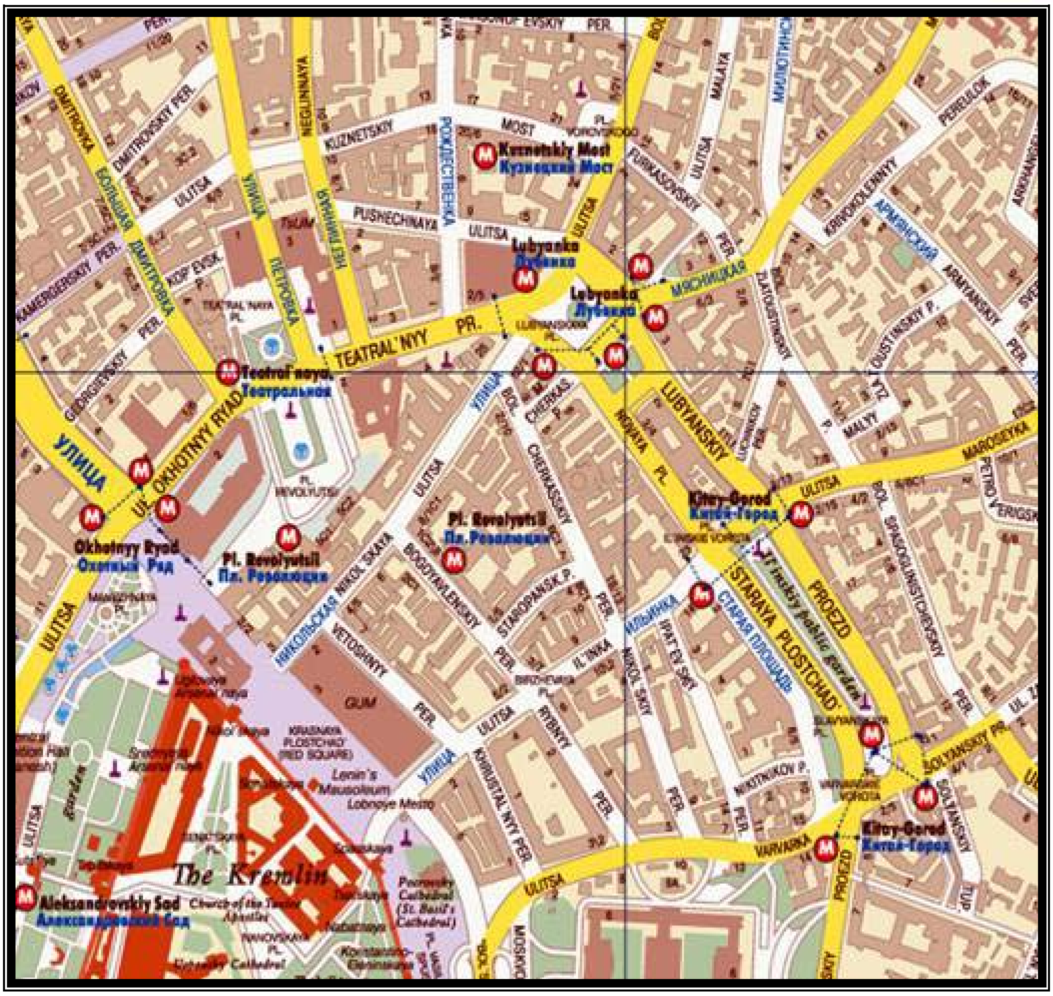
Detsky Mir, Moscow

Property Name:	Detsky Mir
Property Type:	Retail Complex
Location:	Teatralny Proezd 5, Moscow, Russia
Property Rights Appraised:	Freehold interest in the building Leasehold interest in the land plot
Date of Inspection:	October 13, 2005
Location:	The property is located in the exact centre of Moscow, Teatralny Proezd 5. Closest metro stations are Lubyanka and Kuznetsky Most.
Year of construction:	1958
Gross Area of the Building:	57,568.3 square metres according to central TBTI
Total Retail Area:	33,328.5 square metres according to central TBTI
Number of stories:	Seven stories, plus basement and mezzanine floor.
Property Description:	The subject property is a famous Retail Centre of Moscow.
Quality of construction:	As stated in the BTI refer, the rate of depreciation of the building as of 2000 was 52%.
Land plot area:	9,868 square metres, according to land lease contract #M-01-002816 from 11 of August 1995 (49 years lease). 2,800 square metres, according to land lese contract #M-01-510040 from 22 of April 2003 (4 years and 11 month lease)
Final Value Conclusion:	**US$48,200,000**

Property Description

Location

The subject located in the centre of the Moscow. There are several Moscow's most famous, important and historical buildings in the vicinity to the property such as Moscow Kremlin, Bolshoi Theatre, museums and monuments. All of these objects define the location uniqueness and increase the prestigious image of Detsky Mir. The property has excellent transport accessibility from all main thoroughfares of the city because of central location.



Site Description:

The site contains 12,768 square metres (9,868 square metres in 49 years lease and 2'800 square metres in 4 years and 11 month lease) of land, most of which is be covered by the building improvements. The land plot is regular in shape and level.

Improvements Description:

The property includes the existing seven-floor building, which was constructed in 1958. The total area of the building is 57,568.3 square metres.

Valuation Commentary

General

The Detsky Mir department store in Moscow not only occupies one of the most prominent locations within the city centre, but it also occupies a place in the conscisousness on many Russians – not only in Moscow as the *Hamley's* of Russia. As such it has a large number of inherent advantages.

The location on Lubyanka Square is in the very centre of the city and the building itself is very prominent. It has the advantage of being situated directly on top of a metro station, with direct access, which is also a major advantage, particularly during a Moscow winter.

Part of the properties advantage lies in its history, but it has also been largely unchanged since construction and is now somewhat dated in terms of configuration for retail uses. The prime value of the building lies in its location and its redevelopment potential to provide an international quality department store / shopping centre in one of the best locations in Moscow. Redevelopment plans have been under discussion, or have been expected to be implemented, for a number of years. However – the property remains in its original form, and it seems likely that the upkeep of the property has suffered due to the "imminence" of its redevelopment over an extended period.

However – the overall attractiveness of the location and the existing "brand" is difficult to understate.

This analysis has been carried out on the basis of the most recent redevelopment proposals as supplied by the company.

Costs

These are largely based on information provided by the company, due to the complexity of the proposed development which will have to respect certain elements of the existing property and its location.

The currently anticipated start date for redevelopment is the second quarter of 2006. This must be taken in the context of the comments made above.

Comparables

The area around Detsky Mir, including Tverskaya, Petrovka, Kuznetsky Most, as well as other streets and existing shopping centres, is a well established retail and commercial location. However – much of the retail has street frontage, and reliable information on the lease rates in existing shopping centres can be difficult to come by. However – comparable information in respect of the property has been collected as follows:

Name	Status	Category	submarket	gla, sqm	Rental rate
GUM	Existing	Regional	CBD	20 561	o vacant space
Detsky Mir	Existing	Regional	CBD	35 000	55 sq.m - 600$
Petrovsky Passage	Existing	Fashion	CBD	3 974	0 vacant space - 2004 sept - 1500$
Vesna	Existing	Fashion	CBD	5 700	0 vacant space - 2005 june - 1800$
Valday Center	Existing	Fashion	CBD	1 430	100 sq.m - 1500$
Oruzheyny per.	Planned	N/A	CBD		Planned
Pekin	Planned		CBD	84 615	Planned
Garden Gallery	Existing	Fashion	CBD	3 600	80 sq.m - 1200$
Atrium	Existing	Regional	CBD	35 610	2138 sq.m - 2065$
Actor Gallery	Existing	Fashion	CBD	2 845	83 sq.m - 2024$
Okhotny Ryad	Existing	Regional	CBD	24 500	0 vacant space - 2005 june - 4500$
Smolensky Passage	Existing	Community	CBD	11 825	o vacant spacen - 2004 october - 1200-3000$
Nautilus	Existing	Fashion	CBD	3 154	103 sq.m - 2500$
City del	Under construction		CBD		under construction
Russian Mall	Planned	Fashion	CBD		Planned
Arbat Mall	Frozen	Fashion	CBD	8 852	Frozen
Neglinnaya Plaza	Under construction	Fashion	CBD	15 560	under construction
Sadovaya-Spasskaya Project	Frozen	Fashion	CBD		Frozen
Berlin House	Existing	Fashion	CBD	1 699	50 sq.m - 1817$
Na Strastnom	Existing	Convenience	CBD	1 555	0 vacant space
Novinsky passage	Existing	Fashion	CBD	10 512	136, 260, 270 sq.m - 885$
Dvoryansky Dom	Existing	Fashion	CBD	4 500	0 vacant space - 2005 july - 620 sq.m - 1100$
Gimeney	Existing	Fashion	CBD	4 650	0 vacant space
Romanov Dvor Phase 3	Under construction	Fashion	CBD	4 000	under construction
New Century (Lotte)	Under construction	Fashion	CBD	17 143	under construction
Central Market	Under construction	Community	CBD	12 000	under construction
Arkadia	Existing	Fashion	CBD	5 496	93,143 sq.m - 1180$
Tverskoy	Planned	Regional	CBD	36 000	Planned
Detsky Mir Reconstruction Project	Planned	Regional	CBD	39 000	Planned
Voentorg	Under construction	N/A	CBD	20 000	Under construction
Sfera	Under construction	Fashion	CBD	7 700	Under construction
ParkCity	Planned		CBD	12 500	Planned
TSUM	Existing	Fashion - department store	CBD	6 000	0 vacant space
Paveletskaya project	Planned	Regional	CBD	41 000	Planned

Projected Returns

Based on the overall development sizes that are expected for the property, and the performance of other shopping centres within the city (having regard to the particularities of the Detsky Mir site) a retail mix for the property has been developed as follows:

	Description		**Total Area**
			(sqm)
Zone 1	Anchor Tenant – Supermarket	A	2,582
Zone 2	Anchor Tenant – Other	A	14,599
Zone 3	Cinema	A	3,417
Zone 4	Other Entertainment	A	965
Zone 5	Mini-anchor tenants – Fashion, Food Court Restaurant etc.		5,991
Zone 6	Gallery (small shops) - 0-50 sq. m.		733
Zone 7	Gallery (small shops) - 50-150 sq. m.		5,200
Zone 8	Gallery (small shops) - 150-250 sq. m.		3,157
Zone 9	Gallery (small shops) - 250-500 sq. m.		2,072
Zone 10	Mall Area		41,079
	Surface Parking (# Spaces)		
	Underground Parking (# Spaces)		473
Total sqm (excl. Parking)			79,795
Total Parking (Spaces)			473

On the basis of this retail mix and the comparable information – projected returns for the proposed development have been assessed as follows:

Year	Anchor Tenant - Supermarket	Anchor Tenant - Other	Cinema	Other Entertainment	Mini-anchor	Gallery (small shops) - 0-50 sq. m.	Gallery (small shops) - 50-150 sq. m.	Gallery (small shops) - 150-250 sq. m.	Gallery (shops) - 250-500 sq. m.	Mall Area	
2005	250	350	150	250	535	1800	1500	1300	1000	0	13%
2006	250	350	150	250	535	1800	1500	1300	1000	0	12%
2007	250	350	150	250	535	1800	1500	1300	1000	0	11%
2008	250	350	150	250	535	1800	1500	1300	1000	0	10%
2009	250	350	150	250	535	1800	1500	1300	1000	0	9.5%
2010	250	350	150	250	535	1800	1500	1300	1000	0	9.0%
2011	250	350	150	250	535	1800	1500	1300	1000	0	8.5%
2012	250	350	150	250	535	1800	1500	1300	1000	0	8.5%
2013	250	350	150	250	535	1800	1500	1300	1000	0	8.5%
2014	250	350	150	250	535	1800	1500	1300	1000	0	8.5%

For simplicity's sake the rental rates have been considered constant over the time horizon of the financial analysis.

The capitalisation rates reflect the distinct advantages that the completed development would have – in terms of location, brand, accessibility, visibility etc. and the attractiveness that it would therefore have as an investment. They also reflect the fact that any development is likely to have to take place.

As outlined above – the investment sale of three shopping centres will complete in the first quarter of 2006 in Moscow (Signalny, Brateevo and Global City) and these demonstrate that yields for shopping centres are now in the range of 10.5% to 11%.

Lease Up and Vacancy Rate

It is common for shopping centres in the middle of the city (e.g. Atrium, Nautilus) to be entirely pre-leased prior to opening. It has been assumed that this would also be the case with Detsky Mir, as the project will be very attractive for potential tenants due to its superior retail location and its reputation.

The long term vacancy rate has been assessed at 3.75% to take account of a naturl turnover of tenants in the gallery area. This is in line with the average tenancy length for small tenants of 3 years. The location of the Property means it will enjoy consistently high vacancy rates compared with other shopping centres in the middle of the city.

Discount Rate

An unleveraged discount rate of 20% has been used for this project. The project is very attractive and there are well advanced plans for the development. However – there remains a number of risks, and the fact that the project has been muted for sometime would be potentially a significant disincentive to third party purchasers.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

“Detsky Mir” building in Kazan, Vakhitovsky region

Property Name:	“Detsky Mir” building in Kazan, Vakhitovsky region
Property Type:	Retail-entertainment centre
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land
Location:	Kazan, 21 Peterburgskaya str. Tatar Republic, Russia
Ownership:	The documentation of the rights for the site’s ownership is under approvement at the Kazan Land Committee. Governmental authorities are expected to confirm the land sales agreement in the near future. State Registration Certificate under the number #AAX 0432222 dated 18 July 2005 was received in General department of federal registration committee of Tatar Republic. Documentation of the rights for the site’s owneship is under approvement at the Land Committee.
Date of Inspection:	September 20, 2005
Location:	The property is located at the central street Peterburgskaya of Kazan city.
Total Floor Area of the Building:	Property located on the land plot of 0.642 hectare of land according to Tatar Republic Head of Administration resolution dated 01 September 2005, under the number # 2174
Property Description:	The property comprises a four-storey (including socle and technical floors), retail-entertainment complex plus basement floor with the total area of 20, 921 square metres. The property is currently under construction.
Quality of construction:	Expensive and good finishing materials are used for exteriors of the building. The engineering systems of the building are made entirely of the imported parts and equipment of a high quality.
Number of stories:	Four floors (including socle and technical floors) plus basement floor.

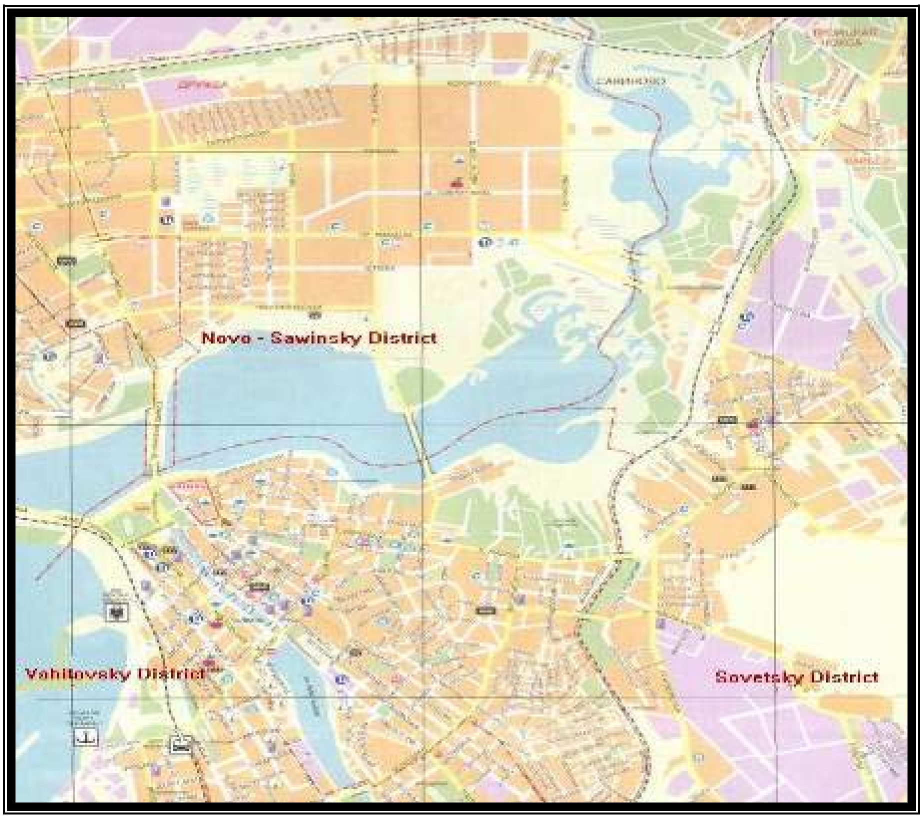
Land area:	0.642 hectare of land
Land use specification:	Retail-entertainment complex
Highest and Best Use As Vacant:	Construction completion of retail-entertainment complex to provide the total area of 20, 921 sq.m with 11,600 sq.m net rentable area.
As Improved:	Building operation as a retail-entertainment complex
Final Value Conclusion:	**US$26,800,000**

Property Description

Location

The retail-entertainment complex "Detsky Mir"is located right in the central reconstructed part of Kazan city in Vakhitovsky district at the most retail-pedestrian street Peterburgskaya, 21 (former Sverdlova street). The building is limited from the north-east by Scherbakova street, which will be a very active transport street in the future, and by Peterburgskaya street from the south-west. The nearest metro station is a new built station "Ploschad Tukaya" whose entrance adjacent to the building.

There are the following properties closed to the object: Sberbank RF, Kazansky State Finance University, Ministry of Youth Affairs, Sport and Tourism and hypermarket "Koltso", adjacent to the property and which is also currently under construction.



There is a good vehicle access to the building from Scherbakovskaya Street.

Site Description

Property located on the land plot of 0.642 hectare size, most of which will be covered by building improvements. The land plot has a constrained, complicated and level shape.

Improvements Description

The retail-entertainment complex "Detsky Mir" is currently under construction and is approximately 30% completed. Approximate delivery date is estimated to be the third quarter of 2006. There will be three entrances to the building: the central entrance will be from Peterburgskaya street, the entrance from the metro station "Ploschad Tukaya", which is situated right in the estimated building, and the independent entrance to the building.

The Property comprises a four-storey (including socle and technical floors) retail-entertainment complex plus underground level.

The main construction elements of the building are made of monolith reinforced concrete. The engineering systems of the building are made entirely of imported parts and equipment of a high quality, external hydro insulation. The building roof will be made from monolithic concrete slab with "Rockwool" type heat insulation, the foundation is from monolithic concrete.

The retail-entertainment complex "Detsky Mir" and hypermarket "Koltso", adjacent to the building, will be having a joined parking place with approximately 700 slots. The project for parking place is currently under developing.

Russian company OOO "TAIF-ST" is a general contractor of this project. Special construction works were performed by local subcontractors.

Valuation Commentary

General

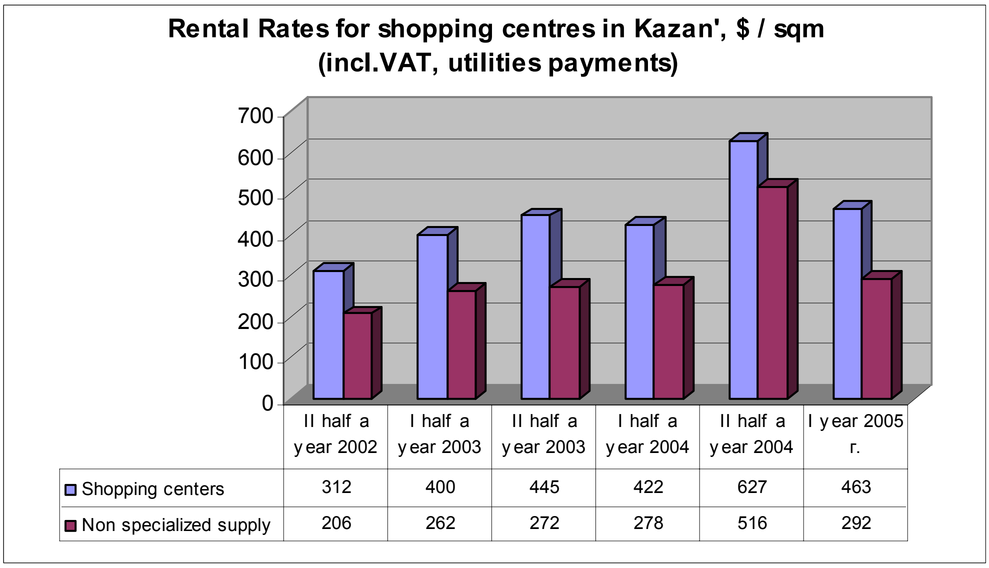
One of the initial phases of the regional expansion plan of *Detsky Mir* as the concept of the children's superstore as an anchor for a larger shopping centre. The property is well located in the centre of the city of Kazan, and will benefit from first mover advantage, as there is a distinct lack of shopping centre development in the city to date. As with Detsky Mir Moscow – the property will benefit from direct Metro access and the concept is well positioned and conceived to take advantage of the continued growth in the economy of Kazan.

Costs

The project is approximately 70% complete. As such, the costs of the project are well defined as contractors are already engaged. The cost provided by the company have therefore been used in our analysis.

Comparables

Comparable information is somewhat limited due to the immaturity of the retail market in the city. However the situation can be summarised as follows:



Projected Returns

Initial leases have been concluded in the shopping centre. These have been taken into account together with general trends in the city (see appendix for an overview on the Kazan retail market) in order to arrive at sustainable returns for the project. Due to the generalised nature of the market, these have been assessed on an average basis for the shopping centre as a whole:

Detsky Mir, Kazan - Rent Rate Summary		
Year	Zone 1	Capitalization Rate
	Retail	
2005	440	19.0%
2006	440	18.0%
2007	440	17.0%
2008	440	16.0%
2009	440	15.0%
2010	440	14.0%
2011	440	13.0%
2012	440	12.0%
2013	440	11.0%
2014	440	10.0%

The capitalisation rates for the exit valuation reflect the lower level of demand for investment in regional markets as opposed to that in Moscow, but the fact that this centre will represent one of the best products in the city will also enhance its attractiveness compared to other opportunities in

Kazan. This balance has been taken into account. In addition yield compression in Kazan (and indeed other regional cities) is expected to follow that which Cushman & Wakefield Stiles & Riabokobylko is projecting for the Moscow market.

In fact the capitalisation rates here are conservative as two similar reginal shopping centres – one in Yekaterinburg and one in Volgograd, recently transacted at yields of approximately 14%. There is therefore significant scope for yield compression or for improvements in the capital value of the finished product.

Vacnacy Rate and Lease Up

It is understood that a number of leases have already been concluded for the project. Experience with the Ikea Mega Mall in Kazan, and with the Park Houses in Yekaterinburg and Volgograd, show that it is highly likely that this shopping centre will be fully pre-leased, subject to the long-term vacancy rate.

The long term vacancy rate has been assessed at 3%. This reflects the comparative small size of the shopping centre, and the underdeveloped market for shopping centres within the city of Kazan as well as the observed levels of demand for leasing space in this shopping centre in particular.

Discount Rate

A discount rate of 17% has been used for this project. Construction is well under way, and initial leases have been agreed and therefore the development risk is considered to be low.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Detsky Mir – Krasnoyarsk

Property Name:	"Detsky Mir" building in Krasnoyarsk
Property Type:	Retail-entertainment centre
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land
Location:	Krasnoyarsk, 2-nd Microrayon Zhilogo Raiona Aeroport street Krasnoyarsk Territory , Russia
Ownership:	Ownership for the land No. 24 ДФ 000581 dated 4 July 2005 according to the State Registration Certificate.
Date of Inspection:	October 18, 2005
Location:	The property is located at 2-nd Microrayona Zhilogo Rayona Aeroport street in Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
Total Floor Area of the Building:	36,343.1 sq.m according to the preliminary proposal prepared by ZAO "Torgovy Kvartal – Region", 2005
Property Description:	The property represents a three-story (excluding underground parking and underground floor) retail-entertainment complex with the total area of 36,343.1 sq.m. The property is currently under construction and approximately 15 percent is completed. It is understood that there are outstanding payments of US$2.4 million required to finalise the acquistion of the land lease rights. This has been taken into account in the valuation analysis.
Quality of construction:	Exterior finishing materials are intended to be of a high quality. Plant and machinery installations are planned to be entirely of imported, high quality materials.
Number of stories:	Three floors (excluding underground parking and underground floor).
Land area:	11,813 sq. m of land
Land use specification:	Retail-entertainment complex
Highest and Best Use	
As Vacant:	Construction completion of retail-entertainment complex to provide the total area of 36,343.1 sq.m with 22,372.5 sq.m for retail rent part.
As Improved:	Building operation as retail-entertainment complex
Final Value Conclusion:	**US$3,300,000**

Property Description

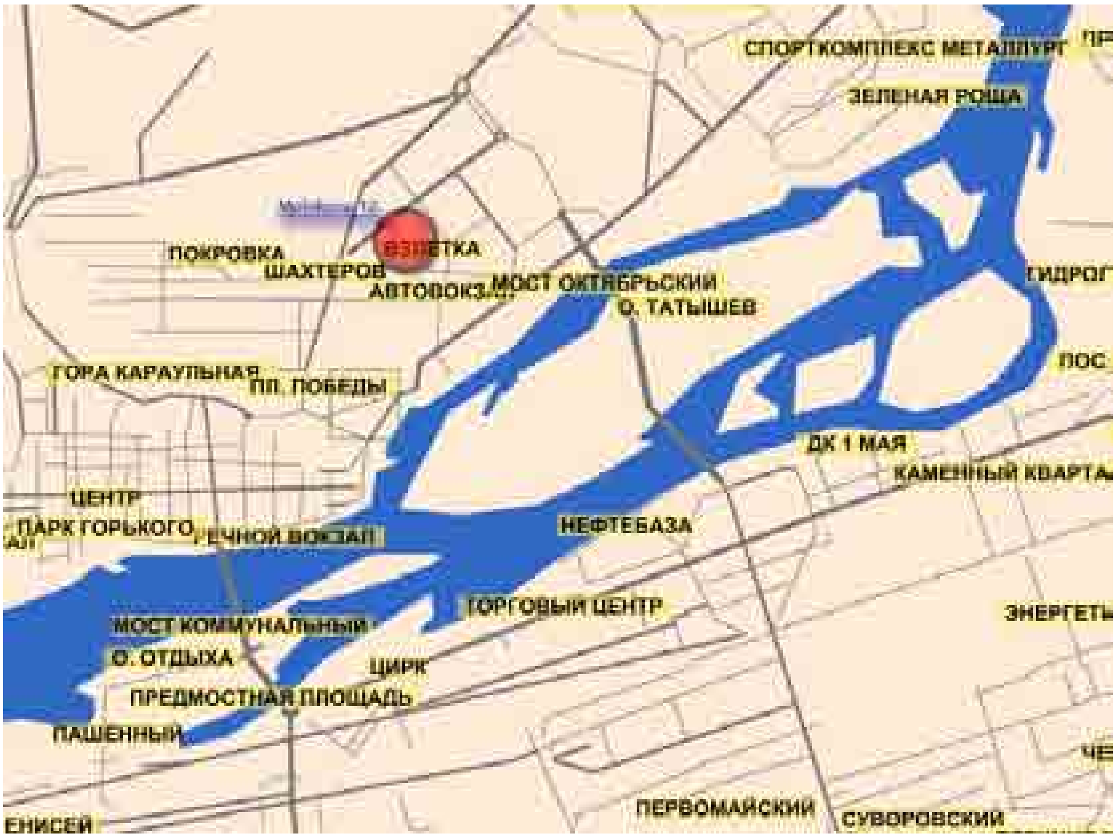
Location

The retail-entertainment complex "Detsky Mir" is located approximately in five kilometres from historical centre of Krasnoyarsk at 2-nd Microrayona Zhilogo Rayona Aeroport street, Sovetsky district.

The Property is bounded on the south-east by Molokova street, on the south-west by a group of residential buildings which are currently under construction and on the north-east by a 24-storey administrative building, which is also under construction. There is a child day-care centre to the north-west of the Property.

The property is surrounded predominantly by residential buildings, the majority of which are currently under construction. Not far from the Property there are: retail centre "Enisey", retail complex "Comandor" and hypermarket "Alpi".

There is a good car access to the property from the Molokova prospect and Baturina street.



Site Description

The Property is located on a land plot of 11,813 square metres, most of which will be covered by building improvements. The land plot is regular in shape.

Improvements Description

The retail-entertainment complex "Detsky Mir" is currently under construction and is approximately 15% completed. The projected delivery date is estimated to be the fourth quarter of 2006.

The subject property represents a three-story (excluding underground parking and underground floor) complex. There will be 105 surface and 234 underground car parking spaces on the minus two level. On the minus one level there will be areas for presentations, technical areas, workshops for repairing goosa, an appliance shop and office areas. There would be a hypermarket on the first floor together with small shops areas. On the second floor there will be children's goods and cafes. The cinema complex, children's complex, restaurant, book shop, music shop and food-court will be located on the third floor.

Russian company OOO "SIBIRIAK" is a general contractor of this project. Special construction works were performed by local subcontractors.

Valuation Commentary

General

A similar type of development to that being undertaken in Kazan., although the Krasnoyarsk project is approximately double the size of the Kazan one. Again the project is located close to the centre of the city and will benefit from a degree of first mover advantage as there has been a limited amount of retail development in Krasnoyarsk to date. Detsky Mir also has a high level of brand recognition across Russia and this will also benefit the operation of the shopping centre by attracting customers.

Consturction is underway and is approximately 15% complete. The concept seems to be reasonable and the size of the centre is compatible with the size of the city.

Costs

As construction is underway the costs are well-defined and therefore information provided by the Company has been used in this regard. In general – the level of costs for this devlepment are at a very high level and this affects the overall valuation.

Comparables

As this property will be the first quality shopping centre in the city there is no relevant direct comparables. Rental rates are based on the initial marketing of the premises and experience as to the variation of rents in regional cities, compared with Moscow – for similar types of shopping centres, where many of the same tenants may be located.

Projected Returns

Initial agreements have been concluded in the shopping centre. When these are taken together with the comparable data, the rental rates for the whole centre have been assessed as follows, on a floor by floor basis:

Detskij Mir, Krasnoyarsk - Rent Rate Summary				
Year	Zone 1	Zone 2	Zone 3	Cap. Rate
	First Floor Retail	Second Floor Retail	Third Floor Retail	
2005	200	210	275	17.0%
2006	200	210	275	16.0%
2007	200	210	275	15.0%
2008	200	210	275	14.0%
2009	200	210	275	13.0%
2010	200	210	275	12.0%
2011	200	210	275	12.0%
2012	200	210	275	12.0%
2013	200	210	275	12.0%
2014	200	210	275	12.0%

For simplicity's sake the rental rates have been kept constant over the planning horizon. The volume of information available does not allow a more detailed approach to be adopted. These projected renal levels are very low compared with the averages that have been achieved by th a number of regional shopping centres (e.g. – Park Houses as outlined above) and there should therefore be no difficulties in reaching these levels.

The capitalisation rates for the exit valuation reflect the lower level of demand for investment in regional markets as opposed to that in Moscow. However – once again this should be one of the best investment products available in the city of Krasnoyarsk, and demand for investments in regional cities, especially retail investment products, is starting to grow rapidly due to the shortage of product available in Moscow and also St. Petersburg. Hence fairly rapid yield compression is expected. This trend has been confirmed by the recent transactiosn seen in Yekaterinburg and Volgograd and suggest that when the project has been completed and fully leased then the capital value may be greater than that used for this analysis.

Vacancy Rate and Lease Up

Despite the larger size of this project compared with Kazan, it is still expected that it will be fully pre-leased up to the long-term vacancy rate prior to opening. The existence of Detsky Mir as a tenant has a significant effect in this regard and it is understood that the leasing process is proceeding reasonably.

As this is a larger centre than the one in Kazan, and as Krasnoyarsk is in general less developed in terms of its retail space and the number of tenants active in the market – a larger vacancy rate of 7.5% has been used in the valuation analysis.

Discount Rate

A discount rate of 17% has been used for this project. This is the same as used for the Kazan project and for the same reasons.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Leto Pulkovskoe Shosse

Property Name:	Leto Pulkovskoe Shosse
Property Type:	Land plot for construction of trade centre
Location:	The site is located at Pulkovskoe Shosse, lot # 7 (Krasnoborskaya Side), Saint Petersburg, Russia
Property Rights Appraised:	Valuation was conducted for the established perpetual use rights of the land. The land plot with cadastral number 78:7567:15 is held freehold, the right for this land plot is registered in Saint Petersburg's registry of rights for real estate # 141282 dated August 04th 2004. It is understood that there is outstanding costs of US$16.184 million in respect of the acquisition of the land rights and the permits for the site. This has been taken into account in the valuation analysis.
Date of Inspection:	September 19th 2005
Location:	The property is located in the southern part of Saint Petersburg, at Pulkovskoe Shosse lot # 7. It is a short drive from the airports Pulkovo I and Pulkovo II.
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate in the subject property as of 1st January 2006.
Land area:	125,516 sq.m.
Land use specification:	For residential purposes
Year of construction:	Beginning: 4 quarter of 2005 Ending (expected): 4 quarter of 2007
Total Gross Area of the Building:	Currently there is no final concept for this project.
Final Value Conclusion:	**US$23,600,000**

Location

The land plot is located at the south of the city, near Pulkovskoe shosse. A short drive from airports Pulkovo and Pulkovo II. The closest metro stations are Moskovskaya I and Moskovskaya II.

Nearby retail centres include Lenta (local chain of hypermarkets), and the newly constructed Metro Cash and Carry centre immediately adjacent to the site.

Access to building

There is easy vehicle and pedestrian access to the building from Pulkovskoe Shosse from both directions.

Security

The land plot is fenced and guarded.

General area

Total area of the land plot is 125,516 of sq.m.

Valuation Commentary

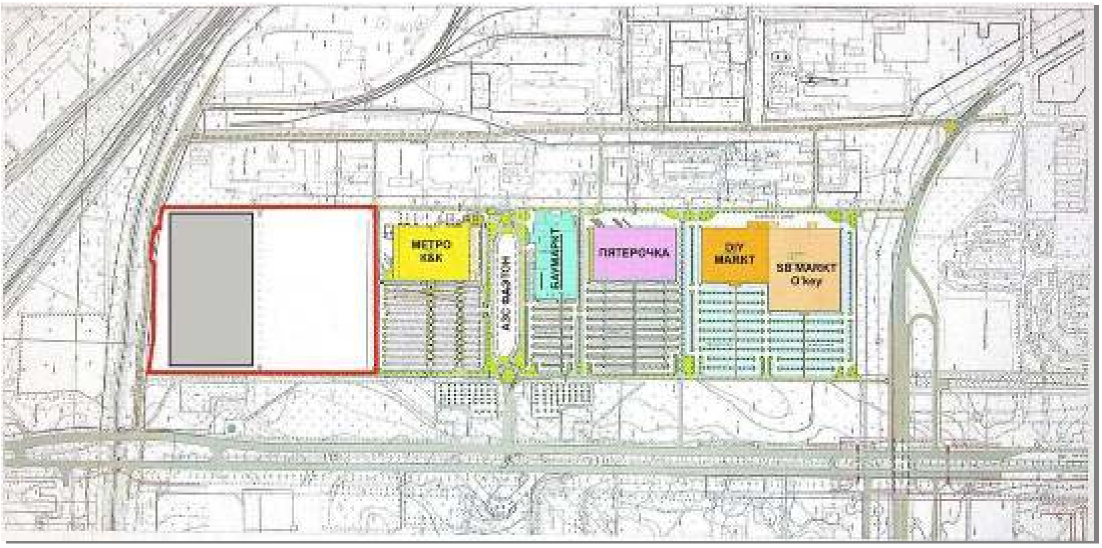
General

Despite the land being zoned for residential development it is, in fact, part of a wider area that has been master planned for retail development as reflected by the new Metro Cash & Carry which has recently been completed next door.

The property fronts onto one of the main highways leading away from Moscow and is held freehold. The area has been planned for the provision of a number of "big box" retail outlets. There are a number of similar developments on the same side of Pulkovskoye Shosse, but further from the city, which means that the area is already developing as a destination for this type of retail. In addition there is a reasonably high density of population in the nearest districts of St.

Petersburg, all within easily accessible distance from the site.

The site itself, a former market garden, is clear and level, and the "Metro" hypermarket adjacent has established the retail nature of the area as well as installing access roads and infrastructure that will make development more straight forward – however, it is assumed that contributions will need to be made to this infrastructure cost.



The site therefore has clean title, is Greenfield and would be straight forward to develop and is hence highly marketable.

Costs

Construction costs are based on market standards and assume a straight forward "big box" development that would have a low level of costs and which would be fast to construct. Permitting and infrastructure costs are based on information supplied to us by the company.

Comparables

A short overview of the St. Petersburg retail market is included below.

Projected Returns

Projected returns are based on the type of development referred to above – i.e. big box retail. There remains the potential to execute a more conventional shopping / entertainment centre development – which would generate increased returns, but based on a much higher level of investment and longer development period. The nature of the site and surrounding uses lends itself to this more straight forward type of development, which also simplifies the residual valuation calculation.

Base Rent Summary		
Year	Zone 1	Cap. Rate
	Big box retail	
2005	200	13.0%
2006	210	12.0%
2007	220	11.0%
2008	225	10.0%
2009	225	9.5%
2010	220	9.0%
2011	215	8.5%
2012	210	8.5%
2013	205	8.0%
2014	200	8.0%

The more straight forward approach will also result in an easier investment product and therefore the capitalisation rates for the exit valuation reflect this. These rates are based on bid prices for transactions currently under process for a similar type of product in the St. Petersburg market and also reflect the transactions that are currently taking place in the Moscow market. In addition – Cushman & Wakefield Stiles & Riabokobylko have recently been involved in the purchase of a shopping centre in St. Petersburg, which has established that the current market yields are in the range 11.5-12% within the city.

Vacancy Rate and Lease Up

The type of the development described above would lend itself to a single or very limited number of occupiers. Certailnly therefore the Project should be entirely pre-leased and should maintain a very low level of vacancy rate. Nevertheless a long-term vacancy rate of 3% has been used in the valuation analysis.

Discount Rate

A discount rate of 19% has been used for this project. The project is reasonably straight forward to develop and has a comparatively low level of investment and therefore has a lower level of risk. Hence the use of a rate, below the benchmark rate (see analysis above) of 20%.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

RECENT SOCIO-ECONOMIC DEVELOPMENT

Demographic and Economic data

Located at the intersection of main sea, river and land routes, Saint Petersburg is Russia's gate to Europe, its strategic centre and is the Russian city closest to the countries of the European Community.

Population

Saint Petersburg is the second most populated city in the Russian Federation after Moscow. It is the administrative centre and the largest city in the North-Western federal district (representing about 32% of the district's population), which consists of the Karelian Republic, Komi Republic, Arkhangelsk district, Volgograd district, Kaliningrad district, Leningrad district, Novgorod district, Pskov district and the Nenets utonomous area. Saint Petersburg is the foremost city in the North-Western federal district.

Resident population size as of 01.12.2004, thousands of people	4 601
Size of the active population as of 01.12.2004, thousands of people	2 520

The average population age according to the census, is 40. The city is characterized by its large share of women, especially elderly. On average, women represent 55% of the city's population.

The development plan of the city, presented in the "Long-term plan of St. Petersburg's development up to 2025", assumes that the population could reach 4.7 million people by 2025 with an average annual per capita income of €20,000-25,000.

The demographic structure of St Petersburg is characterized by the following trends:

- Population decrease,
- Average life span of the population decrease,
- Birth rate decrease.

Labor resources

62% of the population of St Petersburg is in age of working.

Average annual volume of employment (2003), thousands of people	2 380.2

Main industries and infrastructure

Saint petersburg

The largest industrial activities of the city are engineering, metalwork, shipbuilding and food processing.

The main industrial companies of St Petersburg are listed below:

The largest industrial companies of St. Petersburg

OAO «Izhorskye zavody»	**Equipment for atomic energy, mining enterprises, petrochemical industry, as well as the production of specialty steels and semi-finished products made of specialty steels.**
FGUP «Admiralteyskye Verfy»	Designing, manufacturing and modernisation of watercraft for civil and military purposes of different types.
OAO «LOMO»	Optical-mechanical and optical-electrical mechanisms: medical equipment, observation mechanisms, lasers, special military, aviation, naval and space equipment.
"Electrosila" (A branch of the «Silovye Mashyny» concern)	The country's largest generators for electrical stations manufacturer: 60% of thermal, 70% of hydraulic and 100% of atomic electro stations on the CIS territory are equipped with Electrosila generators.
OAO «Baltica» Brewery»	The country's largest brewery.
OAO «Krasny Oktyabr»	Manufacturing of aircraft capsules, gas-turbine engines, air starters etc.
AOOT Leningrad Metal Factory (LMF) - A branch of the «Silovye Mashyny» concern.	Designing, manufacturing and servicing of steam, hydraulic and gas turbines of different capacities. The largest power engineering plant in Russia.
Kyrovsky Factory	A large engineering production spectrum, metallurgic production.
AOOT «Svetlana»	Electrical appliances.
OAO «Baltysky Zavod»	Construction of military watercrafts, commercial shipbuilding.
FGUP «Gosudarstveny Obukhovsky Zavod»	Production for the space industry and atomic electro stations, equipment for the oil producing industry.

The current state of the industry in St Petersburg can be characterised as follows:

Official statistics state that industrial production volumes have been growing since 1999. However, the calcualtion of industrial growth includes sectors which do not form the economic profile of the city – the food industry sector and woodworking.

Industrial production is unstable due to the cyclicality of large projects undertaken by engineering and ship-building companies.

Knowledge-intensive and high-technology production have decreased in percentage.

Despite nominal growth, in reality there has been a decrease of 16% in the volume of investments in capital expenditures. In the North-Western federal district, St Petersburg has fallen behind the Leningrad, Vologda and Archangelsk districts, as well as the Komi republic, with regard to the volume of investment in capital stock per capita.

Economic growth

St Petersburg remains the largest industrial centre in the North-Western federal district (St Petersburg's fraction in the industrial output of the North-Western federal district is almost 30%) and is third in Russia by industrial output.

During recent years, the cultural and tourist sectors as well as the transit-warehouse sectors have been more active than the industrial sector.

St. Petersburg has developed as a trans-national transport and commercial centre.

Industrial output at current prices, 2004, billion roubles	341.8
Overall production of consumer goods, (2003) million roubles	82 490
Delivery of houses and hostels in 2004, thousands of km of overall space	2 032.0
Retail turnover in 2004, billion roubles	202.5
Composite consumer price index , %, 2004 compared to 2003	112.70
Average salary as of 01.01.2005, thousands of people, roubles	9 288
Average subsistence level income per capita, Q3 2004, roubles	2 843.9

There is a trade and construction boom in St Petersburg. Evidence of this is the construction of large residential houses in dormitory suburbs ("bedroom" districts), cottage construction in the northern parts of the city and the reconstruction of residential houses in the central parts of the city.

A process of real estate transformation is currently under progress with conversion of residential space into non-residential space on first floors of houses in central areas of the city and change of industrial-purpose territories to commercial-purposes.

The total volume of investments in the economy of St. Petersburg reached $4 billion in 2004 (22% higher than in 2003). Foreign investments reached $900 mln. Major sources of foreign investments were investments from the USA (28%), Cyprus (14%), Great Britain (11%), Finland (11%) and the Netherlands (9%). Fixed capital investments accounted for about 13% of foreign investments. This trend should continue in 2005-2007.

Moody's raised the long-term rating of St.Petersburg to Baa3. Standard & Poor's and Fitch – BB and BB+ correspondingly showing a decrease in the level of perceived risk.

Retail sector supply and demand analysis

Demand Analysis

Key demand drivers

Retail trade turnover has been driven by increasing purchasing power of the population.

The retail turnover in Saint Petersburg in 2003 and 2004 (according to data from the City Committee of State Statistics) amounted to 179.2 billion rubles and 202.5 billion rubles respectively. The level of 2004 was 13.9% higher than in 2003.

Supply Analysis

Existing stocks

The total retail space available in Saint Petersburg (according to the Economical Development, Industrial Politics and Trade Committee) is 1.6 billion sqm.

(Source - "The Concept of Saint Petersburg Consumer Market Development in 2003-2004".)

The best-known chain operators represented in Saint-Petersburg are listed below:

Pyaterochka is the largest foodstuff operator both in Saint Petersburg and in Russia as a whole. It has 140 retail buildings in Saint Petersburg. The company opened its first hypermarket (15,000 sqm in total area) at the end of 2004. Chain hypermarkets are developing under a separate brand called Karusel. Lately the company has also become a developer of retail complexes.

Paterson is a chain of supermarkets. This chain consists of 11 stores located in both retail centres and on separate premises. All the shops of the chain are under its ownership with none operating on a franchise basis.

Perekryostok – one of the largest retailers in Russia. In St. Petersburg this chain comprises 5 supermarkets. In June 2005 Perekryostok bought several stores from Dalport City. The company is planning to develop its supermarket chain, primarily as part of retail complexes.

Lenta is a hypermarket chain working in the Cash&Carry format. There are seven stores in the city. By the end of this year three more are planned to be constructed. All hypermarkets have the same concept, the only difference is the size of the premises (from 8,000 to 20,000 sqm). The company is planning to expand into the Leningradsky region and in other Russian cities.

O'Key is a hypermarket chain of the Dorinda Holding company. It consists of four existing retail buildings in St. Petersburg. The company opened its first store in Rostov-on-Don in July this year.

Metro Cash&Carry is the biggest international chain of the Cash&Carry format within the Metro Group. There are three stores in St. Petersburg.

Ramstore There are only two complexes of the Turkish company Ramenka in the city. They are hypermarkets in the Gulliver and River House retail centres. The company is planning to open three more stores by the end of the year. Four Ramstore hypermarkets are going to open in 2006.

Megamart consists of four Cash&Carry format hypermarkets, working according to the store-warehouse principle (the same as in the German Metro chain).

Riomag has two stores operating with the Cash&Carry format. Trading Company RBD owns this chain. The premises are 5,600 and 12,400 sqm respectively.

Magnit is a chain of discount stores in the "store near house" format developed by the Krasnodar company ZAO Tander with a turnover of $1 billion in 2004. This puts it in third place in the rating of the biggest foodstuff retailers in Russia. The average area of stores in St. Petersburg is about 200-300 sqm and the number of stores is about 20.

Dalport City. This chain is owned by the Krasnodar group of companies Dalport. At present the chain comprises 24 buildings in St. Petersburg both in the supermarket (10 stores) and "store near house" (14 stores) formats.

Kvartal is a chain of stores in the "store near house" format developed by Kaliningrad group of companies Victoria. Average retail space of the stores is about 250 sqm. There are 17 stores of the chain in St. Petersburg.

Dixie. The chain is owned by ZAO Dixie-Petersburg which is part of OAO Uniland. There are more than 50 stores of the Dixie chain in the "store near house" format in the city now. The chain is in the discount price category

Season. The chain comprises two supermarkets and two hypermarkets in St. Petersburg.

Nakhodka is the chain of economy-class supermarkets owned by the Temp Pervy distribution company. The chain consists of about 16 stores. The retail premises of these stores are each about 250-600 sqm in area.

The chains Pyatochok, Semja, Dieta and others are also represented in the city besides the above mentioned existing chain operators.

Some big stores (Frunzensky, Tallirsky, Severny, Pulkovsky and others) developed in 1970-80 are popular among citizens.

Currently 24 hypermarkets (180,000 sqm in total) are operating in St. Petersburg. The leader in the number of hypermarkets is the local operator Lenta, operating in the Cash&Carry format. The St. Petersburg holding company Pyaterochka has the most ambitious plans for developing both separate-standing hypermarkets and ones in their own retail centres. The project includes the construction of not less than eight hypermarkets named Karusel in St. Petersburg.

The biggest non-food chain retail operators in St. Petersburg are listed in detail below:

Household appliances	Mir techniki
	Alternativa sinitsi
	Telemax
	Teleley
	Eldorado
	M.Video
	Technosila
	Technoshok
	Techno-magia
	Moydodir
Office appliances	RiM
	Compyuterny centre Kay
	Compyuterny mir
	Polaris
DIY	Starik Khotabich
	Iskrasoft
	Maxidom
	Stroymaster
	Tex
	Domovoy
Clothing, footwear, lingerie, accessories	MEXX
	OGGI
	Zarina
	BGN
	ESPRIT
	Glendfield
	Axara
	Gerry Weber
	Naf Naf
	Tri tolstyaka
	Babochka

	Bosco di ciliegi
	Snezhnaya koroleva
	Be Free
	Gloria Jeans
	Dikaya Orkhideya
	Ekonika
	Salamander
	TJ-Collection
	Monarch
	Bustie
	Estel Adony
	Henderson
	etc.
Perfumery and cosmetics	Sephora
	L'etoile
	Ile de Beaute
	Lush
	Riv Gosh
	Dlya dusha i dushi
	Yves Rocher
Sports goods	Sportmaster
	Intersport
	Delta sport
	Baltic sport
	Puma
	Reebok
	Adidas
	Nike
Goods for children	Detsky mir
	Banana Mama
	Zdorovy malish
	Kangaroo
	Dlya tebya i dlya mami

Markets

There are 42 markets in St. Petersburg. About 11 of them (Sennoy, Kuznechny, Maltsevsky etc.) are old markets which were called "kolkhoznye" (farmer markets) during the Soviet period. Almost all the markets sell a variety of both foodstuffs and non-food products. During the last several years the number of markets has been decreasing under the influence of economic trends (growth in the population's spending power) and due to the appearance of new retail centres in place of them.

Retail centres

The majority of retail centres in St. Petersburg do not meet the requirements of a modern retail centre.

The geography of retail centres in St. Petersburg is characterized by irregularity. Such districts as Kupchino, the South-West, Okhta-Polustrovo, and the East have fewer retail centres. Most of the projects are located in the Northern (Shuvalovo –Ozerki), the North-Western (Komendantsky aerodrome) and the Southern part of the city along Pulkovo Highway.

The total retail space of the biggest existing retail centres is approximately **512,000 sqm**. This is lower than in Moscow. If all the planned projects are constructed, a dramatic increase in the number of modern retail premises will occur.

Street Retail.

According to Stanley Estate, the total volume of built-in premises for the present moment is estimated at 2.7 million sqm. Retail store with areas of 50 to 300 sqm make up more than 80% of the total.

Key supply drivers identification

One of the main trends in retail space in Russia during the last 1-2 years is the appearance of large Moscow-based and international chain retail projects. It is connected with both the dynamic activities of local developers and the expansion of Moscow-based and foreign investors in the regions. Investment banks, developers, management and consulting companies all make a significant contribution to Russian retail development.

Local developers

One of the biggest chain developers of retail centres is the Adamant Holding Company which owns and manages 10 existing complexes, for a total area of 350,000 sqm. It is also currently carrying out the construction of 10 new centres. Most of the company's projects are connected with the construction of retail complexes in place of vast non-food markets near subway stations.

Apart from Adamant only a few companies can be named among the developers and investors who have at least two buildings, either realised or under construction: Piter Commercial Centre (Sennaya Retail Centre), ZAO Torgovy dvor, OOO Macromir (four retail centres are under construction and four are planned).

Selected projects

The following table gives information about large existing retail centres in St. Petersburg.

Existing large retail centres (2005-2007)	
Name	Retail space
Grand Palace	14 000
River House	15 000
Vladimirsky passage	18 900
Gallery 1814	6 000
Gulliver	40 000
Cosmopolis	11 000
Mercury	60 000
PIK	20 000
Sennaya	41 300
Admiralteysky	2 450
Akademichesky	17 000
Artem	2 500
Airdrome	5 600
Bada Bum	3 300
Balkansky	35 000
Baltysky	9 100
Great	19 000
Zanevsky Cascade	20 000
Zvezdny	3 500

Existing large retail centres (2005-2007)	
Kvartal	8 000
Kirovsky passage	9 000
Ladozhsky	7 000
Miller-centre	7 000
Nevsky	9 800
Frantsuzsky boulevard	11 000
Nord	52 000
Ozerki	10 500
Oka	10 000
Olymp	4 200
Perinnye ryadi	3 700
Bolshoy Gostiny Dvor	21 000
Shuvalovo	7 800
Dom Mod	5 600
Bourjois	2 100
	512 350

MARKET EVALUATION

Retail Real estate Market analysis

Rents and occupancy analysis

Rental rates in retail centres vary widely and depend on many factors such as the size of leased space, floor, quality of the retail centre, presence of shop-windows, location and others.

The significant increase of retail space during the last years has not led to a decrease in rental rates. On the contrary, their growth in 2004 was about 10-20%.

It is worth mentioning that monthly rather than annual rental rates are the norm in St. Petersburg. This is connected with the duration of the lease agreement. Usually the lease term is 11 months. The rental rates of some retail centres of Saint Petersburg are given below.

Name	Rental rates ($/sqm/month)
Sennaya	70
Ozerki	50
Zanevsky Cascade	47
Nord	42
Mercury	42
Vladimirsky passage	90
Grand Palace	100
Kirovsky Passage	47
Perinnye ryadi	100

The occupancy of retail centres varies from 98 to 100%. Demand for premises that suit tenants' requirements is high.

Spaces of 50-100 sqm are in the highest demand. Anchor tenants in retail centres are large Moscow-based and local chain companies; the ones that are ready to occupy premises from 500 sqm.

Main trade corridors of the city

Name	**Rental rates ,$/sqm/month**
Nevsky avenue	80-200
Staronevsky avenue	60-100
Sadovaya street	80-150
Bolshoy avenue	60-150
Kamennoostrovsky avenue	100-200
Liteiny avenue	40-120
Vladimirsky avenue	80-120
Zagorodny avenue	50-100
Moscovsky avenue	80-150

Source: Stanley Estate

Market evolution

The meeting of demand on the retail real estate market will take place due to the delivery of new retail centres.

Modern quality retail centres, built according to up-to-date technical requirements, will replace other retail buildings.

The interest of Moscow and foreign operators and developers will continue growing.

The Swedish company IKEA has begun the realization of two projects similar to the MEGA projects in Moscow. French hypermarket Auchan and German hypermarket OBI in the DIY format are the main partners of the company in these projects.

Two more large retail centre projects will be realized besides the MEGA projects in St. Petersburg in the following two years. The French company VINCHI Construction Grands Projets will develop a retail centre of 100,000 sqm. The German hypermarkets REAL and OBI and a 10-cinema-hall multiplex are named among the tenants. The construction of the Severny Mall retail centre in the retail park format has begun in the north of the city. A group of Italian investors is participating in the project. The REAL Hypermarket and a large furniture centre are planned to be placed in the retail park (75,000 sqm in total).

A broad retail zone is being formed with the help of various investors in the south of the city along the Pulkovo Highway. Hypermarkets Lenta and Metro Cash&Carry have already opened there. Retail centres Meridian and Pulkovo-3 are under construction. Holdings Dorinda and Pyaterochka are working on the projects to be constructed based on their own hypermarkets.

Large retail centres under construction (2005 -2007)	
Name	Retail space
Mercury (former DLT)	6 400
Vanity Grand Opera	4 500
Zinger Lux House	4 000
Atrium	2 100
Timmerman gallery	5 000
Hyper	40 000
Varshavsky express	19 000
Garden city	43 000
Grand Canyon	50 000
Continent	35 000
MEGA Dibenko	100 000
MEGA Parnas	84 000
Meridian	14 000
Miller -2	5 600
Stockmann	33 000
Osinovaya Rosha	84 000
Planet Neptune	20 000
Promenad	14 700
Pulkovo-3	38 500
Raduga Piter	75 000
Rodeo Drive	32 000
City Mall	42 000
Tipanova	24 500
Udelny Park	28 000
Shkipersky mall	11 000
Yuzhny Polus	25 700
Grazhdansky	14 350
Comandor	25 000
Severny Mall	51 100
	931 450

Auchan, Kingfisher, OBI, REAL, Mosmart, Sedmoy Kontinent are the biggest operators that are planning to enter the St. Petersburg market.

3, Krestovki river emb

Property Name:	3, Krestovki river emb.
Property Type:	Land plot of 14,641 square metres, for construction of Residential complex.
Location:	The site is located in the central part of Saint Petersburg, in one of the most prestigious residential zones of the city, in the frame of 1 Berezovaya Alleja and Krestovki river embankment, Saint Petersburg, Russia
Property Rights Appraised (current buildings):	Ownership rights for the existing buildings. We should note that title documents on perpetual land lease rights as regards the approximately 1.45 ha land site the subject of this analysis, are currently under affirmation at the Saint Petersburg Land Committee. It is understood that this process is proceeding and that a price has been set uf US$5.932 million for sellting all outstanding ownership and permitting issues. This has been taken into account in the valulation analysis below. The property is held freehold, the rights are registered in Saint Petersburg's registry of rights for the existing buildings as follows: No. 78-01-86/2004-358.1 on 14 April 2004 according to the Saint Petersburg State Registration Certificate. No. 78-01-86/2004-385.1 on 14 April 2004 according to the Saint Petersburg State Registration Certificate. No. 78-01-86/2004-399.1 on 14 April 2004 according to the Saint Petersburg State Registration Certificate. No. 78-01-86/2004-396.1 on 14 April 2004 according to the Saint Petersburg State Registration Certificate. No. 78-01-86/2004-402.1 on 14 April 2004 according to the Saint Petersburg State Registration Certificate. No. 78-01-86/2004-393.1 on 14 April 2004 according to the Saint Petersburg State Registration Certificate. No. 78-01-86/2004-391.1 on 14 April 2004 according to the Saint Petersburg State Registration Certificate.

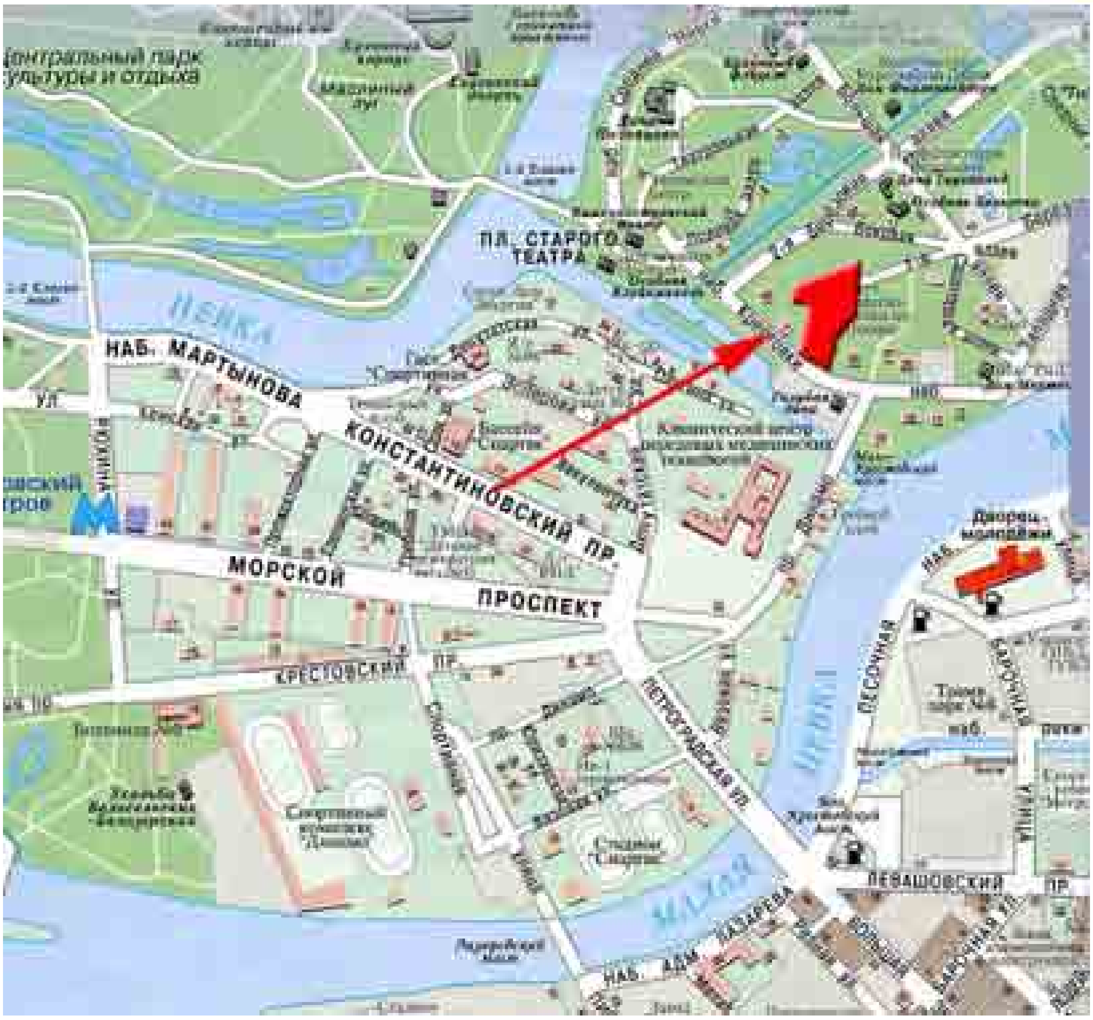
Date of Inspection:	September 19, 2005
Location:	The property is located in the Central part of Saint Petersburg, at Krestovsky Island, a short drive from Dvortsovaya square and Nevsky prospect (5 kilometres). Closest subway station is Krestovsky Ostrov.
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate in the subject property.
Land area:	Approximately 1.45 hectares according to information, provided by Sistema-Hals management.
Land use specification:	The developer has obtained permission to build a residential-hotel complex with associated fitness centre.
Year of construction:	The majority of buildings were constructed between 1940 and 1960, their condition can be described as poor to average.
Total Gross Area of the Building	9,023 square metres
Rental rates:.	Currently, about 85% of rentable premises are leased. Rental rate for this premises is US$75 per square metre per year (excluding VAT and operational expenses). However, the value of the site is driven by the potential to redvelp it for residential purposes.
Final Value Conclusion:	**US$11,900,000**

Location

The land plot is located in the central part of Saint Petersburg, at address Krestovki river emb. 3, the land plot of the Soviet Institution and Experimental Design Bureau of Radio, where production is currently almost suspended. Nearly 80 % of the premises are leased as low quality office space and warehouses.

The land plot is a short Drive from Dvortsovaya square and Nevsky prospect. The closest metro station is Krestovsky Ostrov.

Krestovsky island is one of the most prestigious residential areas in the city. During the last few years it has developed rapidly in terms of the price being achieved – partly because there have been no major increases in supply due to land constraints. Currently in the vicinity a limited number of low density townhouse developments are under construction, and several are already built and partially sold. Krestovsky Island is also developing as a hotel zone.



Access to building

There is easy pedestrian and vehicle access to the site from Krestovki river emb., and from 2nd Berezovaya alley.

Security

The land plot is fenced and guarded.

Year of construction/condition

All of the buildings were constructed in the forties and sixties of 20th century. Their condition can be described as poor to average.

Quality of construction

All buildings were constructed in Soviet period and have corresponding exterior and interior.

Main construction elements of the buildings are brick.

All of the buildings require complete renewal or demolition. According to the developer, the cost of demolition is estimated at 22 million RUR, and would last for three to four months.

Valuation Commentary

General

Kamenny Island, where the site is located, is one of the most prestigious residential districts in St. Petersburg. It is a small island with limited access via two bridges, and with a very green environment with plenty of trees and open spaces. It is highly sought after and the limited amount of residential development that is allowed in the area drives the property prices, which are amongst the highest in the city.

The site is therefore a highly desirable one for redevelopment purposes. However, although the Company holds ownership certificates for the individual buildings the land rights are still in the process of being registered. The cost of the process has been included in the valuation analysis. As the cost of this process has now been established, and the ownership of the buildings is clear, the site does have a degree of marketability, even in its current condition.

There is therefore a great deal of potential to create a highly desirable project which will be attractive to either investors and / or developers or purchasers of individual units in the completed development.

As the title position has only recently been clarified, redevelopment plans are not well advanced and therefore a number of assumptions are required to be made in the valuation process – as regards the scale of development etc.

Costs

Estimated costs are based on the assumed level of potential development (as supplied by the Company) and market standard cost levels. Total costs include the costs of obtaining clean title to the site, which has been included in the cashflow as design and permitting costs.

Comparables

Due the somewhat exclusive nature of the site it is difficult to find direct sales comparables for the finished individual units. In addition it is very difficult to get reliable information on actual transactions for product of this type. It is therefore necessary to take data from properties offered as well as transactions where available.

Name	Rate
Petrovsky Palace, new construction, high class residential complex	$2,400
High class residential complex Olimpic Village, new construction, Vazovaya str., 10	$2,200
Omega House, Pesochnaya emb., 40. New construction high class residential complex, completion date - 1st quarter 2006	$1,800
Kamenoostrovsky prospekt, 64. New construction high class residential complex, completion date 2nd quarter 2006	$1,925

Projected Returns

There remains uncertainty as regards the start and completion dates of the project. These have therefore been assessed conservatively. The project is for residential property for sale. Therefore the estimated sales prices of the finished products (US$ per sqm) have been estimated as follows (in this case capitalisation rates have no relevance to the valuation):

Year	
2005	3500
2006	3500
2007	3500
2008	3500
2009	3500
2010	3500
2011	3500
2012	3500
2013	3500
2014	3500

Due to the lack of information – particularly historic trends, no variation in the sales prices has been built into this analysis

Discount Rate

A discount rate of 25% has been used for this project. There remains a level of uncertainty as regards the legal status and the timing of the project and this results in a significantly higher level of risk and hence the high discount rate employed in the DCF analysis. However – the recent progress in assessing the cost of obtaining land lease rights are a clear move in the right direction.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Petrovsky Prospekt 13

Property Name:	Petrovsky Prospekt 13
Property Type:	Land plot for the construction of a high-class residential complex.
Location:	The site is located at the address Petrovsky Prospekt 13, a short drive from Dvortsovaya Square and Nevsky Prospect (4 kilometres). Saint Petersburg, Russia
Property Rights Appraised:	Currently title documents for the subject property are in the process of negotiation. We have been informed that there are outstanding costs of US$6.084 million required to be paid in order to finalise all title issues. These costs have been included in the valuation analysis.
Date of Inspection:	September 19th, 2005
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate in the subject property as of the Date of Valuation.
Land area:	32,000 sq.m.
Land use specification:	Residential housing
Year of construction:	Beginning: 4th quarter of 2005 Ending: 2nd quarter of 2007
Total Gross Area of the Building:	53,360 square metres
Residential area:	32,000 square metres
Including	
High-class apartments:	16,000 square metres
Business class apartments:	16,000 square metres
Underground parking:	360 slots
Height limitation:	27 – 32 metres
Final Value Conclusion:	**US$11,350,000**

Location

The land plot is located in the central part of Saint Petersburg, at address Petrovsky Prospekt 13. The nearest metro station is: Krestovsky Ostrov. The land plot is located a short drive from the Kamenny Ostrov project (3 kilometres) (see abpve). The land plot is located on an island, across the Malaya Neva river from Krestovsky Island, in one of the most prestigious residential zones of Saint Petersburg.

Access to building

There is easy vehicle and pedestrian access to the site from Petrovsky Prospect.

Security

The land plot is fenced and guarded.

Quality of construction

The developer plans to build modern high quality residential complex, which will be equipped with all facilities i.e. cold and hot water, electricity, telecommunication and other.

General area

Total area of the building is 53 360 of sq.m.

Technical Characteristics of the building

Subject complex will be equipped with all modern utilities, such as hot and cold water, electricity, telecommunication, security systems and other.

Facilities for rent

The complex is only for residential use, and no rentable facilities are supposed.

Current rental rates

The developer has projected prices for the apartments in the subject complex of $2,600 per square metre to $3,000 per square metre. However, for our analysis – different numbers have been used based on recent market comparables.

Valuation Commentary

General

Similarly to Kretovsky embankment this property is situated on an island and in one of the most prestigious residential locations within St. Petersburg. However – once again there is a degree of uncertainty as regards the legal title of the property with the property rights currently under negotiation with the City authorities. It is understood that there is now an agreement as to the cost of finalising the land rights and that this is in process. The costs of this, as reported to us, have been included in the valuation analysis as included in the separate financial appendix.

Again, for this reason, there is no well developed plans for the project – and currently we have only been supplied information as regards the volume and class of the proposed construction. A number of assumptions once again therefore have to be made.

The location of the site does allow for the potential to create an attractive and highly marketable development and this therefore provides intrinsic value to the site, despite the existing limited nature of legal rights.

Costs

Estimated costs are based on the assumed level of potential development (as supplied by the Company) and market standard cost levels. These costs also include the figures reported to us for finalising the land title issues.

Comparables

Comparables for this site are the same as for Krestovsky emb.

Projected Returns

Assessed in the same way as for Krestovsky emb as follows:

Year	
2005	2000
2006	2000
2007	2000
2008	2000
2009	2000
2010	2000
2011	2000
2012	2000
2013	2000
2014	2000

The lower level of per square metre return projected reflects the mix of class of apartments that anticipated for the site with 50% being "elite" and 50% being "business". Most of the comparables available in the area are for the higher class of apartment.

Discount Rate

A discount rate of 25%. The title position is the same as that for Krestovsky Embankment above, and therefore the same discount rate has been used.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

MGTS Properties

The Moscow City Telephone Network (MGTS) still largely operates an analogue system and therefore has a large number of exchange buildings all over the city. These exchange buildings are mostly of a very similar construction – concrete frame with high ceilings and open floor plates and currently house a large amount of out dated exchange equipment.

There is a scheme in place by MGTS for the modernisation of the Moscow telephone network and the replacement of the existing equipment with digital equipment. This will require significantly less space than the existing equipment, and in some cases there will be no further requirement for existing exchanges to continue in that use.

Therefore, the modernisation of the exchange equipment will free up a large amount of building space. MGTS have an agreement with the Moscow City Government that the redundant exchanges can be reused for whatever purpose MGTS believe is most appropriate. The Company is responsible for the redevelopment of this space.

Some of the exchange buildings are therefore included in this valuation report. The properties fall into two types. Those for which a development project already exists, together with details of the proposed concept and those for which that information is not yet ready. We have been provided with costs for purchasing land title and City Government Share for the majority of these projects. These costs have been included in the valuation analysis, and the phasing of these costs has been assumed to be the same as that for design and permitting costs and they have been included within the same line item in the cashflow for each project. Where no costs have been provided it has been assumed that there are no further outstanding costs due to the City Government.

The first group are valued on the basis of the specific development proposals that exist in a similar fashion to the other development projects considered in this report. The second group of projects have been assessed on the assumption that the existing buildings will be renovated for the use most suitable for their location and the existing building configuration. It has been assumed that the new digital exchange equipment will occupy approximately 10% of the building space and that the remainder will be available for renovation and re-use.

Therefore the cost for these properties is simply the renovation cost to shell & core condition. It is assumed that all of the structures are sound and that no structural works will be required. However – no structural surveys have been carried out and you may wish, therefore, to verify this assumption independently.

It has been further assumed that the space for the new exchange equipment will be provided clean and decorated, with the necessary floor loading and with the necessary utilities installed. It is assumed that the developer would not be responsible for the purchase and / or installation of any new exchange equipment. If the developer has any further obligations beyond those assumed in this report – this may severely affect the values herein reported.

This second group of properties is reported herein in less detail than the first group, due to the greater amount of standard assumptions made for those properties.

All of the MGTS properties have been treated for the purpose of this valuation as described above, unless it is specifically stated otherwise.

The majority of these development projects have been assessed using a discount rate of 25%. Project proposals are, in the most part, at a very early stage and there remains a degree of uncertainty about how the telephone exchanges would be treated in any new developments, to what extent it is possible to demolish the existing buildings and replace with new, what the timing would be for the actual development process, and how the logistics of maintaining the operation of the telephone exchanges during any development would work. Hence the fairly high discount rates employed.

Where a different rate has been used for different properties, this is explained in the text below.

MGTS buildings: Bakuninskaya street bldg.1-3, Bakuninskaya street bldg. 5, Bakuninskaya street bldg. 5, bldg. 3, Moscow.

Property Appraised:	MGTS buildings
Property Rights Appraised:	Valuation was conducted for the established property rights on the Buildings and for the perpetual use rights of the land.
Address:	Bakuninskaya street bldg.1-3, Bakuninskaya street bldg. 5 Bakuninskaya street bldg. 5, bldg. 3 Moscow, Russia
Ownership:	The buildings are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the buildings was registered in the Moscow Property Committee with register No. A 0013403 on 28 August 1995 according to the Moscow State Registration Certificate. Ownership for the buildings was registered in the Moscow Property Committee with register No. A 0013404 on 28 August 1995 according to the Moscow State Registration Certificate. Ownership for the buildings was registered in the Moscow Property Committee with register No. A 0013598 on 28 August 1995 according to the Moscow State Certificate The rights for long-term (25 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-001473 dated 19.12.1994.
Date of Inspection:	September 14, 2005
Location:	The property is located in the Central Business District of Moscow, Basmanny region, within two minutes walk of Baumanskaya metro station.

Total Floor Area of the Buildings:	
Building #1	4,046.3 square metres – according to the Moscow State Registration Certificate.
Building #2	7,103.8 square metres – according to the Moscow State Registration Certificate.
Building #3	62,00 square metres – according to the Moscow State Registration Certificate.
Property Description:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Quality of construction:	the subject property consists of low-cost construction buildings, which were built in the 1930s and 1970s (the large one). Their current condition can be described as poor to average.
Land area:	3,495 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Future development for a commercial property such as a business centre.
As Improved:	Finish construction and operate as a business centre with office space.
Final Value Conclusion:	**US$5,100,000**

Property Description

Location

The subject properties are located at the cross-section of two streets: Bakuninskaya and Baumanskaya streets in the Central Business District of Moscow, two minutes walk from “Baumanskaya” metro station. There are several projects surrounding the building, they are: Business Centre at Spartakovskaya str., Office Building at Bakuninskaya str., 71, Office Building at Pleteshkovsky per., 3/2. Car access to the property is convenient from the outer side of the Garden Ring through Staraya Basmannaya ul. Visually, there are no any Class “A” Business Centres in the vicinity.

Site Description:

The site contains 3,495 square metres of land in accordance with the Land Lease Agreement

Improvements Description

The property comprises 2 principal buildings. The first one was constructed in the 1970's and is arranged over nine floors above ground and one underground level, to provide a gross area of 7,103.8 square metres above ground. The other was built in the 1930's, is arranged over four floors above ground, and provides a gross area of 4,046.3 square metres. The existing use is as a telecommunications central exchange. Telephone station equipment is located from the fourth to the ninth floors in the larger building. There is only one tenant on the fourth floor of the building ("Spets-Yzel").

There is a heating system is on each floor. There are two types of floor covering in the building: linoleum prevail, parquet boards partially. The building has a basement with boiler plant inside. There are three elevators in the larger building: two passengers and one cargo. The property is held for development. The development is anticipated to commence on 01.04.2007 and to be completed on 31.12.2008, to provide a total area of 19, 590 square metres of office space in a Business Centre of Class A-, B.

Valuation Commentary

General

The property is located to the north west of the city centre – close to the third ring road. Access by car and by public transport from the metro is very convenient. This is not, however, a well established commercial area. Additionally the site does not lend itself to residential or retail development. Therefore the best use of the property is for Class B offices.

The Company plans to redevelop the site to provide a 19,590 square metre office building. Although this is a comparatively large amount of space for this area there should be sufficient demand provided that the correct class of property is designed and that it is priced accordingly. This has been taken into account in our analysis. In addition – this area is the gross construction area. In the analysis this has been reduced in order to arrive at the estimated Net Rentable Area.

Costs

Estimated costs are based on the assumed level of potential development (as supplied by the Company) and market standard cost levels. It is assumed that the existing buildings will be demolished, and the site cleared, and that the proposed office space will be in a new building.

Comparables

Comparables for nearby office buildings are presented below:

Property	Business Center on Spartakovskaya	Tanora Place	Elokhovsky Project	Novaya Perevedenovskaya ul., 6 build. 3
Submarket	Bassmanny	Bassmanny	Bassmanny	Bassmanny
Building Class	B	B	B	B
Location	Spartakovskaya square,16	Balakirevsky per., 19	Elokhovsky pr., 3, bldg 2	Novaya Perevedenovskaya ul., 6 bldg.3
Nearest metro station	Baumanskaya	Baumanskaya	Baumanskaya	Baumanskaya – 10 minutes walk
Total area (sq.m)	12,556	3,420	1,112	1,410
Rent rate/sq.m	current offers - 540; deals history - 421	380	390	500
Opex	current offers - 80; deals history - 55	50	60	80
Parking spces	100			20

Projected Returns

Based on this information and that supplied by the Company as regards the proposed development the projected returns have been assessed as follows:

Base Rent Summary					
Year	Zone 1	Parking		Cap. Rate	Office
	Office Class A-	Surface	Undergrd		Occupancy
2005	550	1200	2400	14.0%	
2006	550	1200	2400	13.0%	
2007	550	1200	2400	12.5%	
2008	525	1200	2400	12.0%	
2009	515	1200	2400	11.5%	70%
2010	505	1200	2400	11.0%	90%
2011	500	1200	2400	10.5%	100%
2012	500	1200	2400	10.5%	100%
2013	500	1200	2400	10.0%	100%
2014	500	1200	2400	10.0%	100%

The proposed building would be of a higher quality than the comparables outlined above and therefore an upwards adjustment in the observed rents is required. Current Class A- rents, lie between Class A rents ($620 per sqm) and Class B rents ($480-500 per square metre). The rent used for 2006 therefore is slightly below the halfway point of this range and is considered to be reasonable. Incresed competition from 2008 onwards, in particular the emergence of more quality office buildings on the market, and a general downswing in the rent cycle due to the supply pipeline, are expected to put pressure on rents from 2008 onwards.

The exit capitalisation rates reflect the nature of the proposed development and its location and are on the assumption that the property has been completed, is fully leased and its income has stabilised. These rates compare with the prime rates as described earlier in the report which are currently in the range of 10-10.5%. It can be seen that a significant increase in yields has been built into this analysis to take account of the location of the property and the proposed development of a Class A- or Class B office building.

Lease Up and Vacancy Rate

The table above also shows the anticipated lease up of the office premises. The Property is not projected to be particularly large, however due to the location and the prposed class of development it is unlikely to be fully pre-leased. It is projected that an average occupancy of 70% will be achieved during the year of completion, rising to 90% in the following year and then 100%. These rates are applied to the long tern vacancy rate which has been assessed as 5% for this project. This is higher than other properties assessed (e.g. Pokrovka 40 above) to take account of the more peripheral location and the proposed class of the premises.

Discount Rate

A discount rate of 25% has been used for this project. The start of development is still a year and a half away and there remains a lot of work before a finalised development scheme is ready.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

MGTS building on Bolshaya Gruzinskaya str., 30A

Property Name:	MGTS building on Bolshaya Gruzinskaya
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	30A Bolshaya Gruzinskaya street, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AA 036569 on 12 September 2002 according to the Moscow State Registration Certificate. The rights for 15 years lease for this land plot: Agreement with Moscow Land Committee # M-01-002041 dated 12.04.1995.
Date of Inspection:	September 13, 2005
Location:	The property is located in the Central Administrative District of Moscow, Presnensky region.
Total Floor Area of the Building:	4,593.8 square metres – according to the Moscow State Registration Certificate
Property Description:	The Building comprises a six-storey building plus underground floor with a total area of 4,593.8 square metres. There are 5 floors of exchange space (including underground floor), and 1 floor of office space.
Quality of construction:	Average finishing materials are used for interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Six above ground floors and underground level

Land area:	2,859 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide a residential building of "enhanced comfort".
Final Value Conclusion:	**US$4,200,000**

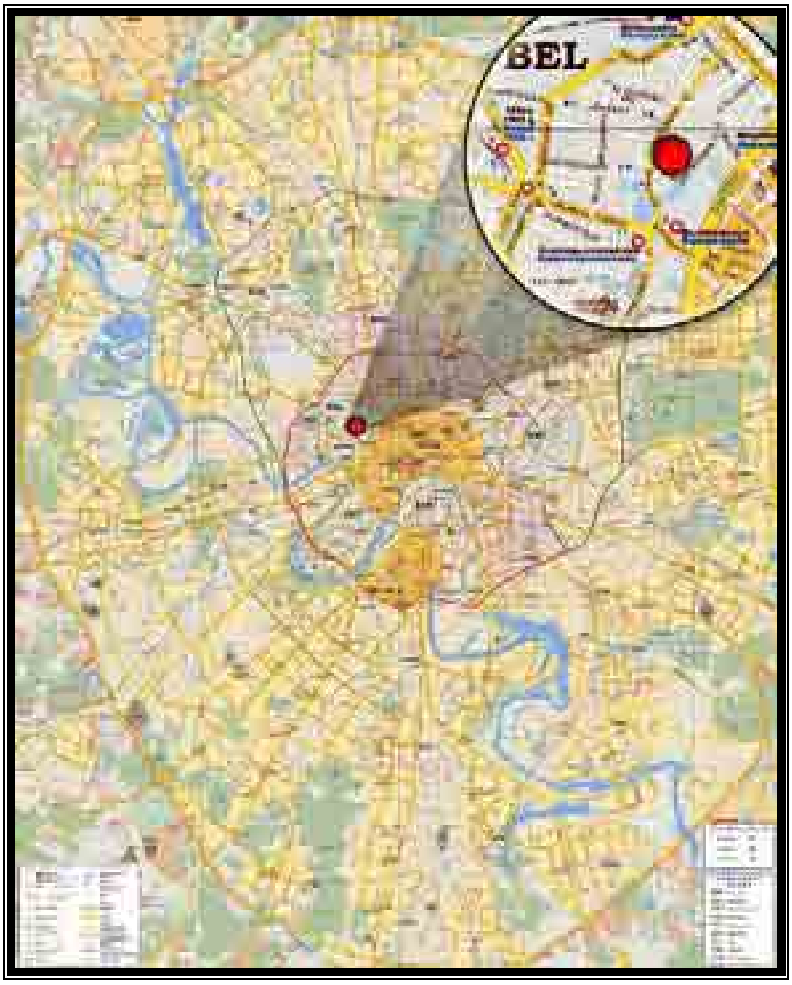
Property Description

Location

The subject property is located in Moscow Belorussky District at B. Gruzinskaya Street, 30A. The building stands off the street (100 m) in a courtyard. It is surrounded by residential and social infrastructures buildings.

The nearest metro stations are Belorusskaya and Barrikadnaya and are situated at a distance from the property, approximately 20 minutes walk.

There is quite convenient vehicle access to the building from the outer side of the Garden Ring and 1-st Tverskaya-Yamskaya Street.



Site Description

The site contains approximately 2,859 square metres of land, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1980's, arranged over 6 floors (with high ceilings) above ground and 1 basement level, providing a gross area of 4,593.8sqm. The existing use of each is as a telecommunications central exchange, with 1 floor used as offices.

The property is held for development. The development is anticipated to commence on 01.03.2006 and complete on 30.06.2008 to include a renovation of the existing structure to provide 11,650 square metres of residential areas of "enhanced comfort" together with surface car parking for 70 slots.

Valuation Commentary

General

The property is located to the north west of the city centre in a quiet residential location close to the City Zoo. This is an established residential location and the proposed development of the existing building is considered appropriate and feasible

Costs

Total costs include the costs for finalising the land lease rights etc..

Comparables

Property	Presnensky val, vladenie 14, bld., 6
Submarket (district)	Krasnopresnensky
Building Class	Buisness-Class
Location	Presnensky val, vladenie 14, bld., 6
Nearest metro	Ulitsa 1905 goda
Number of floors	10
Rate/sq.m	$4600-$6170
Number of Parking slots	n/a

Projected Returns

As there is a shortage of comaparable properties in the area, and the project is for the reconstruction of the existing building – which will be less suitable for residential purposes than a custom designed new building, the finished apartments for sale have been projectged to achieve a price of US$2,200 per square metre.

Discount Rate

A discount rate of 25% has been used for this project.

MGTS building at Demyana Bednogo St, 6

Property Name:	MGTS building at Demyana Bednogo St.
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Location:	15 Demyana Bednogo str.6 Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the Moscow Land Committee. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 АБ 047919 according to the Moscow State Registration Certificate. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013492 dated 28 August 1995 according to the Moscow State Registration Certificate. The rights for long-term (15 years) lease for this land plot: Agreement with Moscow Land Committee # M-08-001377 dated 30.11.1994.
Date of Inspection:	September 29, 2005
Location:	The property is located in the North – West District of Moscow, Khoroshevo-Mnevniki region.
Total Floor Area of the Building:	3,053.2 square metres – according to the Moscow State Registration Certificate. 206.70 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The building has four floors and an underground level. All floors are in call centre use. The technical space and security also occupy the first floor.

Quality of construction:	Average finishing materials are used for interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four floors and a basement.
Land area:	3,998 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide office centre of Class B.
Final Value Conclusion:	**US$8,300,000**

Property Description

Location

The subject property is located in North-West District of Moscow, Khoroshevo-Mnevniki region at 15 Demyana Bednogo Str. The street is rather narrow with low a low volume of car traffic.

The nearest metro station, Polezhaevskaya, is situated a good distance from the property, approximately 10 minutes with by public transport.

The building is surrounded by residential buildings, and in the vicinity there is a children's health clinic.

There is a good car access to the building from the Prospect Marshala Zhukova.

Site Description

The site contains 3,998 square metres of land in accordance with Land Lease Agreement #M-08-001377, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility providing a gross area of 3,053.2 square metres. The existing use is as a telecommunications central exchange. There is a heating system on each floor, there is also a ventilation system in the building. There are no elevators in the building and the fit-out is in very poor condition. There is also a small, brick one story building near the MGTS property and situated on the same land plot.

The property is held for development. The development is anticipated to commence on 01.06.2006 and to be completed on 30.06.2008 to provide 10,000 square metres of Class B office accommodation. The project is currently being formulated so the total area of the develpment could be changed. The number of slots is awaiting approval. However, these projected numbers have been used for the purposes of this analysis

Valuation Commentary

General

The property is located in a rather out of the way area which is currently difficult to access – both by car and by metro. Future road improvements will enhance the accessibility of the site – as, if and when they are completed. This location would be suitable for residential development, but would also be attractive for Class B offices for back office uses as is currently being planned by the company. The development period of two years is anticipated to commence in the middle of 2006.

The proposed office building should prove to be successful if it is priced accordingly as there is little good quality, modern Class B office space currently entering the market.

Costs

Estimated costs are based on the assumed level of potential development (as supplied by the Company) and market standard cost levels. It is assumed that the existing buildings will be demolished, and the site cleared, and that the proposed office space will be in a new building.

Comparables

Comparables for nearby office buildings are presented below:

Property	Office-residential complex	Office-residential complex	Magistral Business Centre
Submarket (district)	North-west	North-west	North-west
Building Class		B+	B
Location	Berezovoy roschi pr.	Zhukova prospect., 54	4-ya Magistralnaya ul.
Nearest metro	10 min from Polezhaevskaya	Polezhaevskaya	7 min from Polezhaevskaya
Total area (sq.m)			10800
Rent rate/sq.m	$450 per sq.m/year, including VAT	$400 per sq.m/year, including VAT	$340-390 per sq.m/year
Opex			Included
Parking spaces			Surface parking: 80 slots

Projected Returns

Based on this information and that supplied by the Company as regards the proposed development the projected returns have been assessed as follows:

Base Rent Summary				
Year	Zone 1	Parking		Cap. Rate
	Class B Offices	Surface	Undergrd	
2004	450	1200	2400	18,0%
2005	450	1200	2400	16,0%
2006	450	1200	2400	15,0%
2007	450	1200	2400	14,0%
2008	450	1200	2400	13,0%
2009	450	1200	2400	12,0%
2010	450	1200	2400	11,5%
2011	450	1200	2400	11,0%
2012	450	1200	2400	10,5%
2013	450	1200	2400	10,0%
2014	450	1200	2400	10,0%

As there is little track record of commercial development is this location, for simplicity's sake no variation has been projected for the office space. The exit capitalisation rates reflect the location and type of development – and the compression is in line with the general trend projected for Moscow over the time horizon of the project. In fact these capitalisation rates are on the high side when compared with recent transactions that have been completed. However – it does reflect the relative attractiveness of a devlepment of this type.

Vacancy Rate and Lease Up

Despite the relative small size of the proposed development a period for the lease up of the premises has been included in the valuation analysis. This is 75% in the first year and 85% in the second year. As a sale is assumed in year two of operation this is the effective long term vacancy rate.

Discount Rate

A discount rate of 25% has been used for this project. The exact size and type of development has not been established and the existing plans envision increasing the floor area on the site by 300%. This increases the potential risks of the project.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

MGTS building, Klenovy bulvar, 23, Moscow

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	Klenovy bulvar, 23, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" in leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 NN 032647 on 06 April 2001 according to the Moscow State Registration Certificate. The rights for long-term (10 years) lease for this land plot: Agreement with Moscow Land Committee # M-05-002001 dated 07.04.1995.
Date of Inspection:	October 5, 2005
Location:	The property is located in the South Business District of Moscow.
Total Floor Area of the Building:	5,000.3 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The Building represents a four-storye building with the total area of 5,000.3 square metres.
Quality of construction:	Average finishing materials are used for interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four above ground stories.
Land area:	2,950 square metres

Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide class B office space.
As Improved:	Finish construction and operate as class B offices.
Final Value Conclusion:	**US$3,250,000**

Property Description

Location

The subject property is located in the South Business District of Moscow. The property is surrounded by high-rise residential buildings. There is a car park in front of the property and a school near the site. The property is located near the road. The district can be characterized as a quiet, "Sleeping" district. The nearest metro station is "Kolomenskaya", but it can be reached by local transport or on foot from the metro in approximately 30 minutes. A Retail Centre is being built just near "Kolomenskaya" metro station by "Garant-Treid M". It is anticipated that the development of the Property will commence in the III quarter of 2005 to provide a gross area of 3,150 square metres and parking facility for 66 cars.

There is a good vehicle access to the building from Moscow Centre via Varshavskoye shosse, and from there also to MKAD the Moscow Orbital Ring Road.

Site Description

The site contains 2,950 square metres of land, most of which will be covered by the building improvements. The site is regular in shape.

Improvements Description

The property comprises a standard building constructed in the 1985's, arranged over four floors above ground, providing a gross area of 5,000.3 square metres. The existing use is as a telecommunications central exchange with the whole second floor and a small part of the first floor used as offices. There is an old elevator in the building. There is no heating system in the building. The telephone equipment is located on the third and fourth floors, and there is a ventilation system on each of these floors.

The property is held for development. The development is anticipated to commence on 01.06.2006 and to be completed on 30.06.2008. The Developer is still formulating the exact nature of the redevelpoment.

Valuation Commentary

General

The property is considered most suitable for renovation to provide Class B offices, over and above the space required for the new digitial exchange equipment due to the configuration and standard of the existing building.

Comparables

No direct comparables are available – returns have been based on other peripheral Class B office developments – see above.

Projected Returns

Base Rent Summary					
Year	Zone 1	Zone 2	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	Surface	Undergrd	
2005	420		1200	2400	16.0%
2006	420		1200	2400	15.0%
2007	420		1200	2400	14.0%
2008	420		1200	2400	13.0%
2009	420		1200	2400	12.0%
2010	420		1200	2400	11.5%
2011	420		1200	2400	11.0%
2012	420		1200	2400	10.5%
2013	420		1200	2400	10.0%
2014	420		1200	2400	10.0%

Due to the limited nature of the available comparables a very conservative view has been taken on the rentsw that are achievable. In addition – due to the nature of the project, its location and size, and the fact that a conversion of the existing building is proposed, the exit capitalisation rates that have been used represent a level approsimatley 4.5-5% above the prime commercial yield.

Vacancy Rate and Lease Up

The property is very small and it is therefore considered that it will be occupied to the long-term vacancy rate from the completion of fit-out. The building is not currently located in a commercial area and therefore the long-term vacancy rate has been assessed at 10%, which is nearly 3 times the current market average.

Discount Rate

A discount rate of 25% has been used for this project. There are currently no proposals for the redevelopment of this site, and therefore a number of assumptions have been made. The initial plan of the Company was to develop the property for residential purposes although it is considered that a commercial office development would be more appropriate.

MGTS building on Artekovskaya str, 9

Property Name:	MGTS building on Artekovskaya str.
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	9 Artekovskaya, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" in leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AA 054802 on 21 August 2002 according to the Moscow State Registration Certificate. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AB 283024 on 21 December 2004 according to the Moscow State Registration Certificate. The rights for long-term (10 years) lease for this land plot: Agreement with Moscow Land Committee # M-05-002007 dated 07.04.1995.
Date of Inspection:	October 4, 2005
Location:	The property is located in the South District of Moscow, Nagorny region.
Total Floor Area of the Building:	2,429.1 and 169.3 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The building has three above ground floors and one underground level. The underground floor is intended for technical services. Telephone exchange equipment is located on the second and third floors.

Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Three above ground floors and basement facilities
Land area:	2,032.00 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment into apartment block
Final Value Conclusion:	**-US$850,000.** As currently envisioned, and with a cost for the land rights of US$2.536 million, the Property has a negative land value. If the development of this Property is considered as part of the overall MGTS redevelopment programme then this can be considered as a cost of the overall redevelopment scheme.

Property Description

Location

The subject property is located in the South District of Moscow, Nagorny region at Artekovskaya str., 9. The street is rather narrow with a low volume of car traffic. The building is surrounded by residential buildings.

The nearest metro station, Varshavskaya, is situated within approximately 7 minutes walk. A railway station, Kolomenskaya(for local trains) is also situated not far from the building about 7 minutes on foot.

There is a good vehicle access to the building from Varshavskoe shosse, a major radial route and Chonsarsky Boulevard.

Site Description

The site contains approximately 2,932 square metres of land, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard exchange building constructed in 1964, arranged over 3 floors above ground and 1 basement level, providing a gross area of 2,429.1 sqm and a separate small ancillary building with a total area of 169.3 sqm. The existing use of the main building is as a telecommunications central exchange with the first, second and third floors in call centre use. The ancillary building is used for technical purposes.

The property is held for development. Planning permission approvals are in the process of being applied for.

The development is anticipated to commence in the second quarter 2006 and to be completed in the fourth quarter 2007. It will include a renovation of the existing structure to provide a residential "enhanced comfort" building. The project is now being formulated and the total area of the reconstructed building is being approved.

Valuation Commentary

General

The property is in a residential location and district to the south of the city. There are limited existing proposals for this site. Therefore the building is assumed to be renovated to provide space for the new exchange equipment with the remainder for residential uses.

Costs

Total costs include significant costs for the registration of the land lease rights..

Comparables

Property	Zuzino, kvartal 26-31, building 11A
Submarket (district)	Zuzino
Building Class	Buisness-Class
Location	Zuzino, kvartal 26-31, building 11A
Nearest metro	5 min walk from Kakhovskaya, Sevastopolskaya
Rate/sq.m	$1,929
Number of Parking slots	n/a

Projected Returns

Although there are limited comparables available in terms of new residential development in the area, the sales prices for the completed project are projected broadly in line with the information outlined above at US$1750 per square metre.

Discount Rate

A discount rate of 25% has been used for this project.

MGTS building, Vsevolozhsky lane, 5

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	5 Vsevolozhsky lane, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AB 156434 on 13 May 2003 according to the Moscow State Registration Certificate. The rights for long-term (25 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-001477 dated 20.12.1994.
Date of Inspection:	September 13, 2005
Location:	The property is located in the Central Administrative District of Moscow, Hamovniki region.
Total Floor Area of the Building:	5,185 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The Building comprises a four-storey building plus underground floor with a gross area of 5,185 square metres. There are 3 floors of technical space (including underground floor). Office space occupies the whole of the first floor.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four ground stories and basement facilities

Land area:	2,327 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Future development into a commercial property such as a business centre.
Final Value Conclusion:	**US$5,950,000**

Property Description

Location

The subject property is located at Vsevolzhsky per., 5 in the Central Administrative District of Moscow. The site is located within seven minutes walk from "Kropotkinskaya" metro station. There is a good car access to the building from Moscow centre, Prechistenka and Ostozhenka streets and Frunzenskaya naberezhnaya.

Site Description

The site contains 2, 327 square metres of land in accordance with Land Lease Agreement #M-01-001477, most of which is covered by the building improvements.

Improvements Description

The property comprises a standard exchange building constructed in 1979, arranged over four above ground floors plus underground level, providing a gross area of 5, 185 square metres. The existing use is as a telecommunications central exchange with some vacant areas. There are two types of heating systems in the building: hydronic heating and air heating system.

The property is held for development. The development is anticipated to commence in the third quarter 2006 and to be completed in the fourth quarter 2007 to include a renovation of the existing structure to provide 7, 820 square metres of office accommodation in a Class A Business Centre, together with parking facilities and 1, 915 square metres dedicated to the renovated telephone exchange.

Valuation Commentary

General

Located in the Central Business District, in a popular commercial area, this property is entirely suitable for an office development. A loss factor has been taken into account in the valuation analysis from the Gross Construction Area to the Net Rentable Area.

Costs

Total costs include the costs of acquiring the land lease rights.

Comparables

Property	Gagarinsky per., 3	Ostozhenka	SHS Invest Building	Vsevolozhsky per., 2/2
Submarket	CBD	CBD	CBD	CBD
Building Class	B	B	B	B
Location	Gagarinsky per., 3	Ostozhenka ul., 10/2/7, bldg 1	Prechistenka ul., 4	Vsevolzhsky per., 2/2
Nearest metro	Kropotkinskaya	Kropotkinskaya	Kropotkinskaya	Kropotkinskaya
Total area (sq.m)	2,400	3,250	600	1,098
Rent rate/sq.m	$600	$504	$277	$340
Opex	25	80	100	50
Parking Slots	0	20		

Projected Returns

There is a wide spread in the rents being achieved as outlined above. Only the first two properties are truly representative of what is being achieved in the area and these have therefore been used in assessing the projected returns for the proposed development:

Base Rent Summary				
Year	Zone 1	Parking		Cap. Rate
	Class A Offices	Surface	Undergrd	
2005	550	1200	2400	15.0%
2006	550	1200	2400	14.0%
2007	525	1200	2400	13.5%
2008	515	1200	2400	13.0%
2009	505	1200	2400	12.5%
2010	500	1200	2400	12.0%
2011	500	1200	2400	11.5%
2012	500	1200	2400	11.5%
2013	500	1200	2400	11.0%
2014	500	1200	2400	11.0%

This is an excellent office location and the small size of the proposed development will enhance its attractiveness as it will appeal to a wider number of potential tenants – including single tenants. The projected rents are more that 10% below the current average market levels in order to be certain that the assessed rents should be entirely achievable.

Similarly the exit capitalisation rates have been assessed at around 3.5 to 4% above current prime levels. This takes into account the nature of the Property and the proposed development, as well as it's excellent central location.

Vacancy rate and Lease Up

The Proposed development is comparatively small and has an excellent central location that will be much sought after. It is therefore projected that the Property will be fully pre-lesed prior to completion and will therefore generate rent from when the fit-out works are finished.

Again due to the size and the location of the Property the long-term vacancy rate has been assessed as 3%. The excellent central location of this Property means that it will always be in demand and therefore ongoing vacancy rates will be low.

Discount Rate	A discount rate of 25% has been used for this project.

MGTS building on Daev per., 19

Property Name:	MGTS building on Daev per.
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	19 Daev lane, Moscow, Russia
Ownership:	The building improvements are owned by OAO “Moscow Municipal Telephone Service”. Land is held by OAO “Moscow Municipal Telephone Service” on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 АБ on 9 July 2003 according to the Moscow State Registration Certificate. The rights for long-term (25 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-001476 dated 20.12.1994. We have been informed that there is an outstanding cost for the Company to consolidate the land lease rights of US$6.278 million.
Date of Inspection:	September 12, 2005
Location:	The property is located in the Central Business District of Moscow.
Total Floor Area of the Building:	6,468 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The Building comprises a six-storey building plus underground floor with a gross area of 6,468 square metres. There are 5 floors of exchange space (including underground floor) and 1 floor of offices.

Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Six above ground floors and basement facilities
Land area:	2,943 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopmen t into a Class A- / B office building
Final Value Conclusion:	**US$1,950,000**

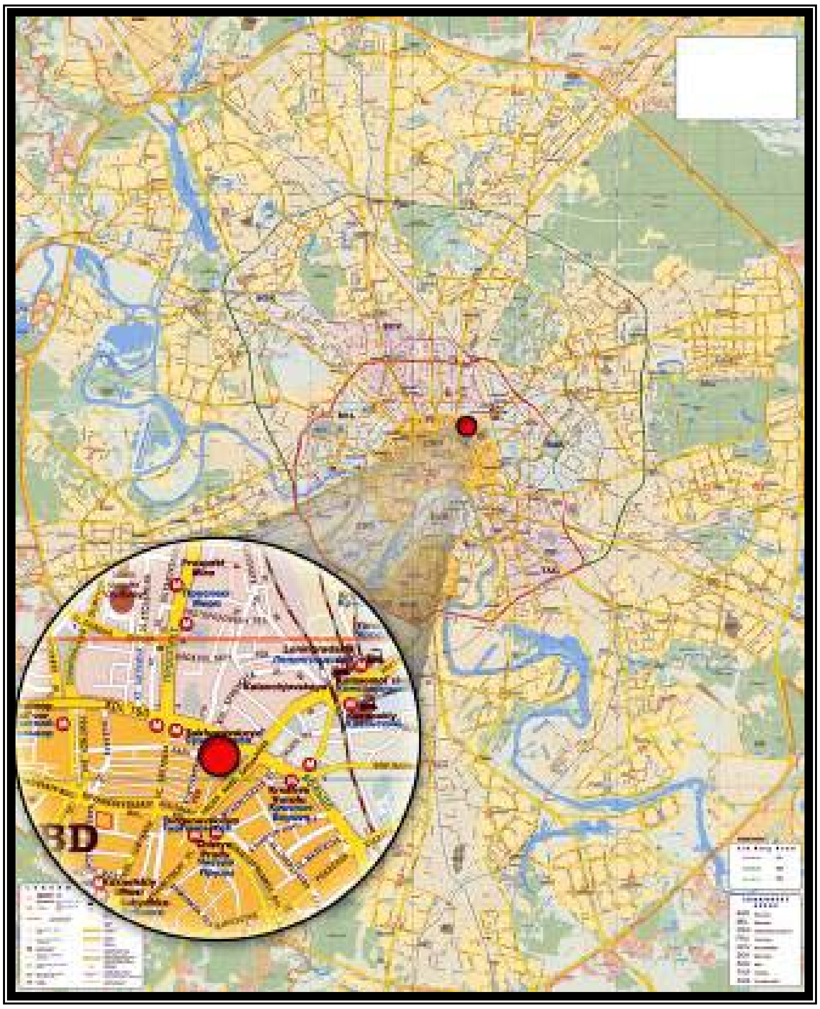
Property Description

Location

The subject property is located in the Moscow Central Business District two blocks away from the Garden Ring at 19 Daev lane. The lane is lined with low-rise properties (primarily reconstructed non-residential buildings) and high-rise residential buildings. There are two "enhanced comfort" residential buildings opposite the MGTS building, while to the left of it across the street there are the Daev Plaza, a Class A office building, and a premium class residential building.

The site is located within approximately five minutes walk from "Suharevskaya" metro station.

There is good vehicle access to the building from the Garden Ring, Sretenka Street and Kostyanskiy lane and in general, due to its central location it is highly accessible.



Site Description

The site contains approximately 2,943 square metres of land, most of which will be covered by the building improvements. The site is rectangular in shape and level.

Improvements Description

The property comprises a standard building constructed in the 1980's, arranged over 6 floors above ground and 1 basement level, providing a gross area of 6,468sqm. The existing use is as a telecommunications central exchange with the ground floor used as offices.

The property is held for development. The development is anticipate to commence on 01.12.2005 and to complete on 31.03.2008 to include a renovation of the existing structure to provide 9,390 sqm of "class A" office accommodation and 1,860sqm dedicated to the renovated telephone exchange, together with surface car parking for 75 slots.

Valuation Commentary

General

An excellent existing commercial location in the Central Business District. This is very good site for a commercial office development and the proposed concept is considered the most appropriate. There are a number of existing office buildings around the property that are performing very well. This location will have very sustainable demand levels.

However, the lack of underground parking in the development is likely to negatively impact its attractiveness compared with competing projects.

Costs

Total costs include the costs of permitting and finialisng land rights.

Comparables

Property	**Ulansky Center Phase I**	**Ulansky Center Phase II**	**Sretenka 30**
Submarket	CBD	CBD	CBD
Building Class	B	B	B
Location	Ulansky per., 4	Ulansky per., 5	Sretenka ul., 30
Nearest metro	Turgenevskaya	Chistye Prudy, Turgenevskaya	Sukharevskaya
Total area (sq.m)	3,440	2,682	1,300
Rent rate/sq.m	$530	current offers - $491 deals history - $505	$546
Opex	$70	current offers - $70; Deals history –$81.25	$80
Parking slots	6	36	12

Property	Ulansky per., 24	Daev Plaza	Sretenka 18
Submarket	CBD	CBD	CBD
Building Class	B	B	B
Location	Ulansky per., 24	Daev per., 20	Sretenka ul., 18
Nearest metro)	Turgenevskaya	Sukharevskaya, Krasniye Vorota	Sukharevskaya
Total area (sq.m)	5,000	8,000	22,300
Rent rate/sq.m	$440	$671.5	$615
Opex	$80	$91	$50
Parking slots	40	53	120

Property	RosUgleSnab building	Sukharevskaya Bol. square, 16/18	Sretensky tupik, 4
Submarket	CBD	CBD	CBD
Building Class	B	B	B
Location	Golovin Mal. Per., 3	Sukharevskaya Bol. Square, 16/18, bldg 1	Sretensky tupik, 4
Nearest metro	Chistye Prudy	Sukharevskaya	Sukharevskaya
Total area (sq.m)	11,250	1,440	2,117
Rent rate/sq.m	$600	$366	$440
Opex	$100	$61	$80

Projected Returns

Based on this information projected returns have been assessed as follows:

Base Rent Summary				
Year	Zone 1	Parking		Cap. Rate
	Class A Offices	Surface	Undergrd	
2005	595	1200	2400	13.0%
2006	595	1200	2400	12.0%
2007	585	1200	2400	11.0%
2008	580	1200	2400	10.5%
2009	575	1200	2400	10.0%
2010	575	1200	2400	9.5%
2011	575	1200	2400	9.0%
2012	575	1200	2400	9.0%
2013	570	1200	2400	9.0%
2014	570	1200	2400	9.0%

The nearest building to the subject Property is Daev Plaza which is nearly directly opposite and which enjoys a very high occupancy rate (circa 97%). Although the subject Property will not have the same quality due to it being a reconstruction of the existing building – it will benefit from the same locational factors. Downwards adjustments have been made to the Daev Plaza rents to take account of this factor, and also the lack of underground parking.

Despite the good location an exit Capitalisation rate has been assessed around 1.5-2% above the current prime market levels to reflect the same issues that negatively impact the rent.

Lease Up and Vacancy Rate

Due to the comparatively small size of the building it should be entirely pre-leased, subject to the long-term vacancy rate, as was the case with Daev Plaza. However – due to the existence of a number of competing projects in the immediate vicinity the vacancy rate has bee based on 5%.

Discount Rate

A discount rate of 25% has been used for this project.

MGTS building on Nastasynsky

Property Name:	MGTS building on Nastasynsky
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Location:	7/1 Nastasynsky lane, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013381 on 28 August 1995 according to the Moscow State Registration Certificate. The rights for long-term (25 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-002200 dated 05.05.1995. We have been informed that there are outstanding costs for the acquisition of the land lease rights to the Property US$13.447 million.
Date of Inspection:	September 13, 2005
Location:	The property is located in the Central Administrative District of Moscow, Tverskoy region.
Total Floor Area of the Building:	2,906.80 square metres – according to the Moscow State Registration Certificate. Part of the 1st floor is occupied by JSF Sistema, a connected company. We did not include these premises (107.8 sq.m.) in our valuation.
Property Description:	The Building comprises a four-storey building plus underground floor with a gross area of 2,906.8 square metres. There are 4 floors of exchange space (including underground floor) and 1 floor used as offices.

Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four above ground stories and basement facilities
Land area:	4,215 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevlepoment to form an office building
Final Value Conclusion:	**US$3,500,000**

Property Description

Location

The subject property is located in Moscow Central Administrative District closed to Pushkinskaya Square at 7, b. 1 Nastasyinsky per. The nearest metro stations Tverskaya, Pushkinskaya and Tchekhovskaya are situated in approximately 5 minutes walk away. There is good vehicle access to the building from Tverskaya street – one of the city's major radial routes, and from there the Garden Ring and Boulevard Ring are both easily accessible.

The property is very centrally located within approximately one kilometre of the Kremlin.

Site Description

The site contains 4,215 square metres of land in accordance with Land Lease Agreement # M-01-002200, most of which is covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1960's, arranged over four floors above ground, providing a gross area of 2,906.80 sqm. The existing use is as a telecommunications central exchange. There are 4 floors of the technical space (including underground floor), 1 floor of the office space. Heating system is on each floor, there is also ventilation system in the building. There is one elevators in the building.

The property is held for development. The development is anticipated to commence on 01.01.2007 and complete on 30.06.2008 to include a renovation of the existing structure and to provide 10,140 square metres of Class A office accommodation. The project is currently under development so the total area of the property could be changed, the number of slots is under approvement.

Valuation Commentary

General

The property is very central in the heart of the Central Business District and close to the major Moscow Street of Tverskaya. This is a truly excellent location for office development and therefore the concept is the correct one for the site.

Comparables

Property	**Capital Group – Degtyarny 4**	**Megapolis**	**Chaika Plaza V - Tverskaya 22B**
Submarket	CBD	CBD	CBD
Building Class	A	A	A
Location	Tverskaya ul., 22/2, bldg 1	Nastasinsky per., 7	Tverskaya ul., 22/2, bldg 1
Nearest metro	Tverskaya, Mayakovskaya	Tverskaya, Pushkinskaya	Tverskaya, Mayakovskaya
Total area (sq.m)	8814	8248	8814
Rent rate/sq.m	Current offers - $660; Deals history - $614	$629 per sq.m	Current offers - $660; Deals history - $614
Opex	Current offers - $85; Deals history -$87	100 per sq.m	Current offers - $85 Deals history - $87
Parking slots	72	42	72

Projected Returns

Base Rent Summary					
Year	Zone 1	Parking		Cap. Rate	Office
	Class A Offices	Surface	Undergrd		Occupancy
2005	575	1500	3000	13.0%	100%
2006	575	1500	3000	12.0%	100%
2007	550	1500	3000	11.0%	100%
2008	540	1500	3000	10.0%	100%
2009	530	1500	3000	9.5%	100%
2010	525	1500	3000	9.0%	100%
2011	525	1500	3000	8.5%	100%
2012	525	1500	3000	8.0%	100%
2013	525	1500	3000	8.0%	100%
2014	525	1500	3000	8.0%	100%

The projected rents are in fact some way below the levels that are currently being achieved in the market, but this takes account of the fact that it is not entirely clear yet of the form of the development and therefore the quality of the offices that will be developed. Therefore, in similar fashion, the exitg capitalisation rates represent a margin over the current prime rates of 2.5-3%. This is despite the Property having one of the best possible locations for commercial development within the Moscow Central Business District.

Vacancy Rate and Lease Up

The Property is relatively small and has an excellent central location. It is therefore projected that, particularly at the competitive rents outlined above, the Property would be fully pre-leased, subject to the long-term vacancy rate. This has been assessed at 3% - again due to the size of the Property and its location.

Discount Rate

A discount rate of 25% has been used for this project.

MGTS building, Novy arbat, 2

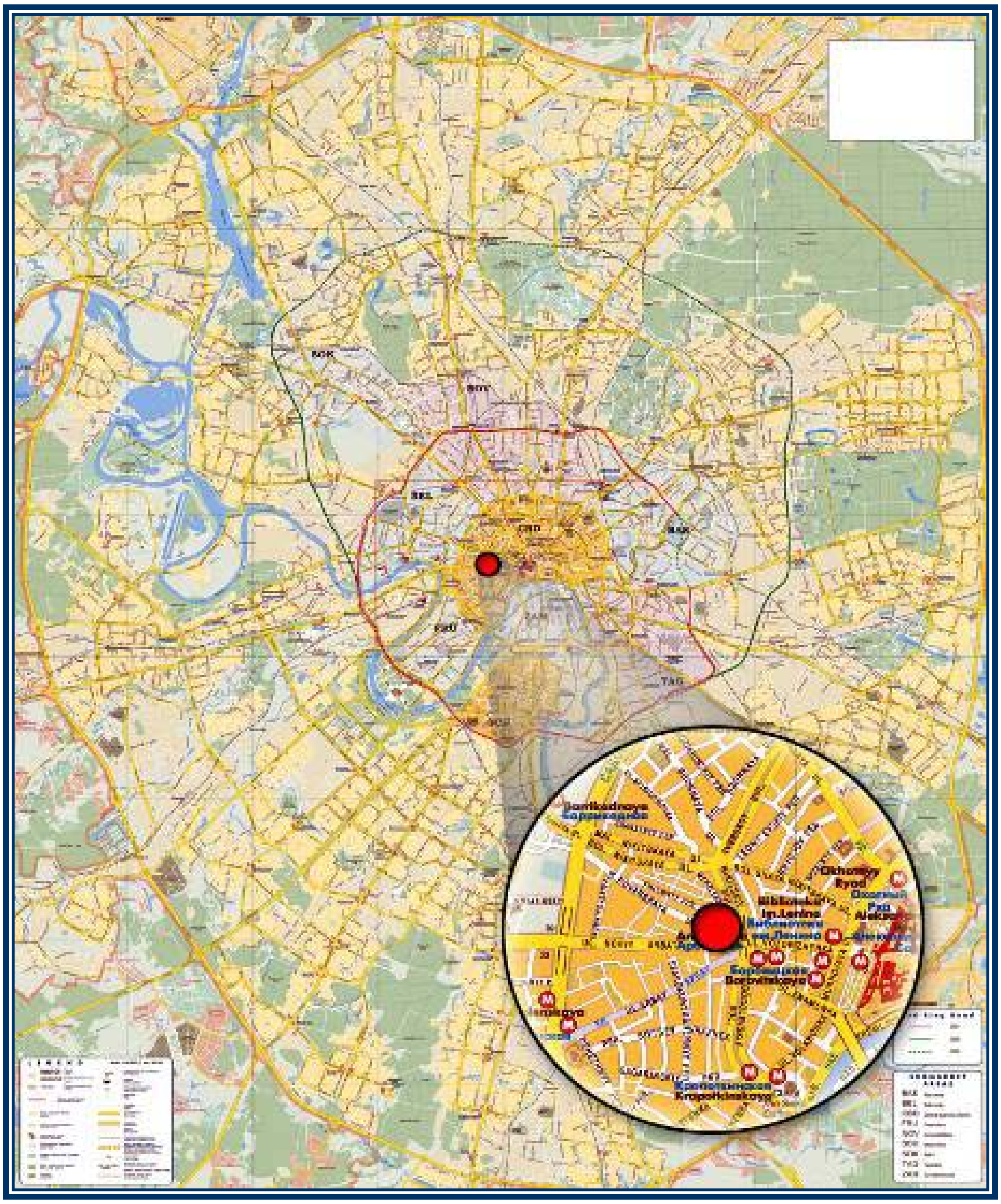
Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	2, Novy Arbat, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AA 180184 dated 18 March 2002 according to the Moscow State Registration Certificate. The rights for long-term (25 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-001511 dated 22.12.1994. It is understood that there is an outstanding payment due of US$12,600,000 in respect of the finalisation of the legal rights to the land. This has been taken into account in the valuation analysis below and these costs have been phased in accordance with the remainder of the design and permitting costs.
Date of Inspection:	September 14, 2005
Location:	The property is located in the Central Business District of Moscow, Arbat region.
Total Floor Area of the Building:	11,113.8 square metres – according to the Moscow State Registration Certificate.

Property Description:	Standard exchange building. The building has seven floors above ground with high ceilings (4.6 m), one technical floor and a basement. Call centre and office spaces are located on the third, fifth and part of the first floors. The exchange spaces occupy part of the first and all of the second, fourth and fifth floors. A post office occupies another part of the first floor, and further parts of the first and second floors are leased by MTS (a connected company) and another tenants.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Seven above ground levels and one technical floor
Land area:	1,509 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide a mixed-use building with office and retail areas.
As Improved:	Finish construction and operate as Class A Business Centre predominantly for offices together with street frontage retail.
Final Value Conclusion:	**US$14,750,000**

Property Description

Location:

The subject property is located at 2, Novy Arbat street. Novy Arbat is one of the most popular streets in Moscow and it has a lot of casinos, business centres, shopping malls and restaurants. The site is located within five minutes walk from "Arbatskaya" metro station. There is good car access to the building from Moscow centre, Garden Ring, Boulevard Ring, Kutuzovsky prospect and the Third Ring Road.



Site Description:

The site contains 1,509 square metres of land in accordance with Land Lease Agreement #M-01-001511, most of which is covered by the building improvements.

Improvements Description:

The property comprises a standard building constructed in the 1970's, arranged over seven floors and one technical floor, providing a gross area of 11,113.8 square metres. The existing use is as a telecommunications central exchangetogether with some leased areas for office and retails uses. Telephone exchange equipment is located on part of the first and the third and fifth floors. There are many tenants on the first and second floors, such as MTS, Bank, Strim Line, Post office, ect. Heating and ventilation systems are provided on each floor There is access to the roof of the building from the technical eighth floor. There is a beautiful view to Novy Arbat street from the higher floors. There are some floors in the building (seventh, sixth) which are well fitted-out. There are three types of floor coverings in the building: carpet, linoleum and floor tiles. There are four lifts in the building: three passengers lifts and one cargo. Engineering equipment in the basement is in a good condition.

The property is held for development. The development is anticipate to commence on 01.03.2006 and complete on 31.12.2008 to provide the total area of 24, 668 square metres for office and retail space in Class A Business Centre.

Valuation Commentary

General

The property is very centrally located on one of the major commercial streets in the city, and is an excellent site for retail / office development. There are a number of successful projects in the immediate area which testify to the fact that the proposed development is the correct one for the site.

Comparables

Property	Alpha Arbat Centre, Phase I	Arbat 8-10
Submarket	CBD	CBD
Building Class	A	A
Location	Arbat ul., 1	Arbat ul., 8-10
Nearest metro	Arbatskaya	Arbatskaya
Total area (sq.m)	47,225	25,000
Rent rate/sq.m	Owner occupied	$565
Opex		$92.5
Parking slots	105	105

Property	CG on Povarskaya	Business Centre
Submarket	CBD	CBD
Building Class	A	A
Location	Povarskaya ul., 2	Povarskaya ul., 10
Nearest metro	Arbatskaya	Arbatskaya
Total area (sq.m)	30,000	
Rent rate/sq.m		$1,200 including VAT
Comments	Planned	

Property	Dvoryansky Dom	Valday Center	Voentorg (under construction)
Submarket	CBD	CBD	CBD
Retail Type			

Location	Arbat st., 8-10	New Arbat st., 11	Vozdvizhenka st., 10
Nearest metro	Arbat metro station	Arbat metro station	Arbat metro station
Total area (sq.m)	14,000	4,703	68,000
Rent rate/sq.m	$1,100 for 620 sq.m (0 vacant space for September)	$1,500 for 100 sq.m for september	
Opex			
Parking slots	168	no special parking	

Projected Returns

Projected rental returns are based on the existing market, the proposed development and take account of the fact that the property is in a prime location.

Base Rent Summary					
Year	Zone 1	Zone 2	Parking		Cap. Rate
	Class A Offices	Street frontage retail	Surface	Undergrd	
2004	590	1900	1500	2400	14.0%
2005	595	1900	1500	2400	13.0%
2006	595	1900	1500	2400	12.0%
2007	585	1900	1500	2400	11.0%
2008	580	1900	1500	2400	10.5%
2009	575	1900	1500	2400	10.0%
2010	575	1900	1500	2400	9.5%
2011	575	1900	1500	2400	9.5%
2012	575	1900	1500	2400	9.0%
2013	570	1900	1500	2400	9.0%
2014	570	1900	1500	2400	9.0%

It has been difficult to find direct copmarables fronting onto Novy Arbat itself. In addtion these retail presmises will occupy perhaps the most enviable location and the end of Novy Arbat closest to the centre and to the metro station, increasing its attractiveness and visbility. The office rents are slightly below the current market averages (>US$600 per annum) and this reflects the lack of parking the development is likely to have. This will be offset to a certain extent by the excellent location close to the city centre. The same factors have been taken into account in assessing the capitalisation rates which are set approximately 2-2.5% above the market levels. This also takes into account the fact that this will be a mixed-use development which, in general, are slightly less attractive for investment purposes.

Vacancy Rate and Lease Up

The Prpoerty occupies a trul excellent location on one of the major Moscow city streets and very close to the centre. A well designed development in this location will therefore prove to be very attractive – particularly for an office building of this size, which is comparatively small. It is therefore projected that the building will be fully pre-leased and maintain full occupancy over the investment horizon that has been analysed.

Discount Rate

A discount rate of 25% has been used for this project in accordance with other MGTS projects as described above.

11 Rogozhsky Val, Moscow

Property Appraised:	Four buildings (including one central exchange building, an office building and two warehouses) of about 4,758 square metres total floor space.
Property Rights Appraised:	Valuation was conducted for the established property rights on the Buildings and for the perpetual use rights of the land.
Address:	11 Rogozhsky Val, Moscow, Russia
Ownership:	The buildings improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownerships for the buildings were registered in the Moscow Property Committee with identification No. 77 АБ 293969 on 12 September 2002 according to the Moscow State Registration Certificate. No. A 0013292 on 28 August 1995 according to the Moscow State Registration Certificate. No. A 0013289 on 28 August 1995 according to the Moscow State Registration Certificate. No. 8974 on 28 August 1995 according to the Moscow State Registration Certificate. The rights for long-term (25 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-004721 dated 21.03.1996. We have been informed by the company that in this regard there are outstanding costs of US$26,243,000. These outstanding costs have been taken into account in the valuation analysis below.
Date of Inspection:	September 12, 2005
Location:	The property is located in the Central Administrative District of Moscow, Tagansky region.
Total Floor Area of the Buildings:	4,758 square metres – according to the Moscow State Registration Certificates.

Property Description:	The largest building (3,093.7 sq.m.) is the most significant and comprises the majority of value. It is a standard exchange building built in 1970s. Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Quality of construction:	Most of the subject property consists of low-cost construction buildings, which were built in the 1950-70s. Their current condition is poor to average.
Land area:	5,937 square metres
Land use specification:	For central exchange building
Final Value Conclusion:	**US$25,950,000**

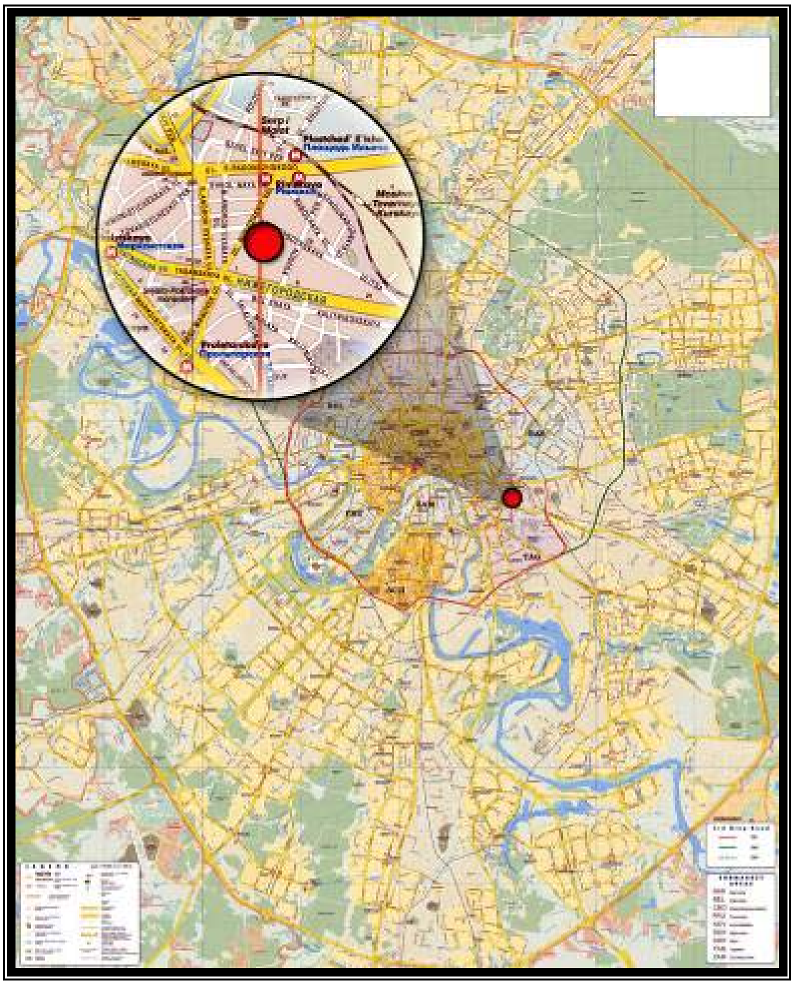
Property Description

Location

The subject property is located in Moscow Tagansky District at Rogozhsky Val 11.

The nearest metro station, Ploshchad Ilyicha, is approximately 15 minutes walk. There is convenient car access from Sergiya Radonezhskogo Street and Taganskaya Street.

The property is surrounded by residential buildings and small shops. There are no offices or retail centres in the vicinity.



Site Description

The site contains approximately 5,973 square metres of land, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard exchange building and ancillary buildings constructed in the 1950's and 1970's, together providing a gross area of 4,758sqm. The existing use of each respectively is as a telecommunications central exchange, offices and 2 warehouses.

The development is anticipated to commence in the first quarter of 2006 and to be completed in the third quarter of 2008 to include demolition of the existing structures and new construction to provide 56,908 sqm of a Mix Used Development with 561 car parking spaces.

Valuation Commentary

General The property is located in an existing commercial area to the east of the city centre, close to the garden ring, with easy access by car and reasonable access from public transport. The redevelopment plans of the Company are ambitious in terms of the amount of space to be provided – but due to the nature of the location the development is considered to be sustainable and there should be no significant difficulty in marketing and leasing the completed development.

Costs

Total costs include all of the outstanding legal and permitting costs that have been identified by us to the company as outlined above.

Comparables

Property	**Mosenka Park Tower IV**	**Radonezhsky Phase II**
Submarket (district)	Tagansky	Tagansky
Building Class	A	A
Location	Taganskaya ul., 17-23	Sergiya Radonezhskogo ul., 1/2
Nearest metro station	7 minutes walk from Taganskaya, Mark sistskaya metro station	4 minutes walk from Ploschad Il yicha metro station
Total area (sq.m)	15,000	8,000
Rent rate/sq.m	Current offers - $ 853; Deals offers -$505	$430 per sq.m
Opex	Current offers - $80; Deals offers - $76	$100 per sq.m

Projected Returns

These comparables are considered the most appropriate – although there are a number of others, and these properties are not exactly Class A. Nevertheless they have been used as a starting point in arriving at the projected returns:

Base Rent Summary

Year	Zone 1 Class A Offices	Parking		Cap. Rate
		Surface	Undergrd	
2004	560	1200	2400	14.0%
2005	565	1200	2400	13.0%
2006	565	1200	2400	12.0%
2007	555	1200	2400	11.0%
2008	550	1200	2400	10.5%
2009	555	1200	2400	10.0%
2010	555	1200	2400	9.5%
2011	555	1200	2400	9.5%
2012	555	1200	2400	9.0%
2013	550	1200	2400	9.0%
2014	550	1200	2400	9.0%

I.e. due to the location of the Property and the standard of design and construction that is expected (i.e. genuine class A) a projected rent between the current average class A rates and the comparables shown above for slightly inferior properties is considered to be the most appropriate. Similarly – due to its location, the exit capitalisation rate has been assessed around 2-2.5% above the currentl level for prime properties. I.e. the eastern side of the city centre is generally a less attractive location for investment properties and this one is outside of the Central Business District.

Lease up and Vacancy Rate

The proposed development of over 50,000 is a significant size, even in this location where there are a number of large HQ buildings of major occupiers (e.g. Vneshtorgbank). Nevertheless it is considered that it is unlikely that the building would be fully pre-leased and that, in fact, it would take four years to reach the long term trend occupancy rate. Therefore – the average occupancy rates for the offices (compared to the long term occupancy rate) are expected to be 50%

in the first year, 70% in the second, 85% in the third and thereafter at the long term trend rate.

Due to the slightly peripheral location of the Property, and again due to the overall size of the proposed development, a higher long term vacancy rate has been used than for the majority of other properties of 8%.

Discount Rate

A discount rate of 25% has been used for this project in line with the other MGTS properties.

MGTS building on Stolyarny per, 5/1

Property Name:	MGTS building on Stolyarny per.
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Location:	5/1 Stolyarny lane, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AA 036568 on 12 September 2002 according to the Moscow State Registration Certificate. The rights for long-term (25 years) lease for this land plot: Agreement with Moscow Land Committee # M-01-001509 dated 22.12.1994. We have been informed that the outstanding costs to finalise legal and permitting issues are US$12 million. This has been taken into account in the valuation analysis below.
Date of Inspection:	September 13, 2005
Location:	The property is located in the Central Administrative District of Moscow, Presnensky region.
Total Floor Area of the Building:	6,415.8 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The building has six above ground floors and one underground floor. The existing use is as a telecommunications central exchange with the first, third and fifth floors in use as offices and / or call centre.

Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Six above ground floors and basement facilities
Land area:	4,182 square metres
Land use specification:	For central exchange building
Final Value Conclusion:	**US$17,600,000**

Property Description

Location

The subject property is located in Moscow Presnensky District at Stolyarny lane, 5. The nearest metro station Ulitsa 1905 g. is situated approximately 10 minutes walk from the site. Vehicle access to the property is possible from the Presnenskii Val Street and Malaya Gruzinskaya Street. Stolyarny lane has a dead end at gates leading to the site of a warehousing facility. The lane is rather narrow and has a very low volume of car traffic.

Therefore the vehicle access to the site is somewhat restricted – this may affect its attractiveness to a certain extent, but the fact that the site occupies a very peaceful location can also be seen as an advantage.

Site Description

The site contains approximately 4,182 square metres of land, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1960's, arranged over 6 floors above ground and 1 basement level, providing a gross area of 6,415.8sqm. The existing use is as a telecommunications central exchange.

The property is held for development. Planning permission approvals are in the process of being applied for.

The development is anticipated to commence in the first quarter of 2006 and to be completed in the fourth quarter of 2008 to include a renovation of the existing structure and extension with bew build to provide 22,200 square metres of Class B office accommodation together with surface car parking (approximately 185 slots).

Valuation Commentary

General

The property is located in a very quiet street close to the centre of Moscow – between the garden ring and the third ring roads. The building and the location lend themselves very well to a commercial office development which woul be highly marketable provided that it is well designed and constructed. A renovation of the existing building is a reasonably straight forward development and due to the nature of the buidlilng it will provide a good quality class B office building. There is plenty of demand for developments of this type in this area.

Costs

Total costs are estimated include all of the legal and permitting costs identified to us.

Comparables

Property	McDonald's Building on 1905 Goda	Office Business Centre
Submarket (district)	Belorusskaya	Belorusskaya
Building Class	A	A
Location	Krasnaya Presnya ul., 31	2-ya Zvenigorodskaya ul., 13
Nearest metro	10 minutes walk from Ulitsa 1905 goda	7 min walk from ulitsa 1905 goda
Total area (sq.m)	3,609	approximately 8,400
Rent rate/sq.m		$700 per sq.m/year
Opex	N/a	N/a
Parking slots	21	N/a

Projected Returns

Unfortunately good transactional data is not particularly available at the current time, although there are additional nearby developments at the World Trade Center and Zvenigorodskoye which have recently leased well. The activity in the local market has been taken into account in assessing the projected returns:

Base Rent Summary				
Year	Zone 1	Parking		Cap. Rate
	Class A Office	Surface	Undergrd	
2005	595	1200	2400	13.0%
2006	595	1200	2400	12.0%
2007	585	1200	2400	11.0%
2008	580	1200	2400	10.0%
2009	575	1200	2400	9.5%
2010	575	1200	2400	9.0%
2011	575	1200	2400	8.5%
2012	575	1200	2400	8.0%
2013	570	1200	2400	8.0%
2014	570	1200	2400	8.0%

The Property is located close th the Central Business District and in many ways its quiet locatin is going to be an advantage for office space, particularly where high visiblity is not required. The size of just under 20,000 square metres is also a very popular size of building. Therefore the projected rents for the Property have been assessed approximately 5% below the current market average levels. Similarly – a Property of this size and in this location should be a very attractive investment product. However, it is clearly not prime and therefore the exit capitalisation rates have been assessed approximately 2-2.5% behind what are the current prime levels for offices.

Lease Up and Vacancy Rate

The Property is well located and is a very marketable size and, additionally, the projected rents are at a very competitive level. Therefore it is anticipated that the building would be fully pre-leased subject to the long-term vacancy rate – and similar experiences were produced at Zvenigorodskoye and the latest phase of the World Trade Centre. Similarly the first two pahses of the ENKA development in the city project were also fully pre-leased in similar fashion.

Nevertheless a farily conservative approach has been taken to the long term vacancy rate to reflect the fact that the Property does not have high visibility, is located slightly outside the Central Business District and the fact that there will be increased competition in this area of the city as the Moscow City Project proceeds towards completion over the course of the next 6 to 7 years.

Discount Rate

A discount rate of 25% has been used for this project.

MGTS building, simferopolsky bulvar, 3

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	3, Simferopolsky bulvar, Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AA 054805 dated 21 August 2002 according to the Moscow State Registration Certificate. The rights for long-term (10 years) lease for this land plot: Agreement with Moscow Land Committee # M-05-001992 dated 06.04.1995. We have been informed that the outstanding costs for all legal and permitting issues are US2,378,000. These costs have been taken into account in the valuation analysis below.
Date of Inspection:	October 04, 2005
Location:	The property is located in the South Business District of Moscow.
Total Floor Area of the Building:	4,549.5 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The Building comprises a four-storey building plus basement facilities with a gross area of 4,549.5 square metres.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.

Number of stories:	Four above ground floors.
Land area:	3,034 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide a total area of 10, 800 square metres of office space in a business centre.
As Improved:	Finish construction and operate as Class B Business Centre.
Final Value Conclusion:	**US$7,600,000**

Property Description

Location:

The subject property is located in the South Business District of Moscow. The property is surrounded by residential buildings. The nearest metro station to the site is "Nakhimovsky prospect" and it can only be reached by local transport.

There is a good vehicle access to the building from Varshavskoye shosse, one of the city's major radial routes, and Kashirskoye shosse.

Site Description:

The site contains 3,034 square metres of land in accordance with Land Lease Agreement #M-05-001992, most of which is covered by the building improvements.

Improvements Description:

The property comprises a standard MGTS building, arranged over four floors, providing a gross area of 4,549.5 square metres. The existing use is as a telecommunications central exchange with the second and third floors used as offices. There are several tenants in the building: "YUM" company, "MTK Telecom" and Set' XXI". There are heating and ventilation systems on each floor. The telephone exchange equipment is located on the second and fourth floors. Maintenance works have been carried out to the offices on the fourth floor. There are several offices on the first floor, plus technical space, storage facility, etc.

The property is held for development. The development is anticipated to commence in the first quarter of 2006 and to be completed in the fourth quarter of 2007 to provide a total area of 10,800 square metres of office space in a Class B Business Centre.

Valuation Commentary

General

The property is in a quiet location to the south of the city and some way from the centre. Development plans are not well advanced, but the current intention is to provide office space from a part renovation of the existing building and part new build.

Comparables

Property	Aerobus retail-office complex	Buisness Centre	Administrative building
Submarket	OTA	OTA	OTA
Building Class		B	B
Location	Varshavskoye shosse, 95	Andropova prospect, 22	
Nearest metro	Chertanovskaya	Kolomenskaya	Avtozavodskaya
Total area (sq.m)	36,000	65,000	
Rent rate/sq.m	\$400-\$1800	\$350 including VAT	\$340, including VAT
Opex	\$95	Included	
Parking slots	Sufrace: 950 underground: 92	Surface: 500	
Comments	delivery date: February 2006		

Projected Returns

The projected returns are in line with the existing market for class B space as outlined above and the general level of class B rents in the city. The rates are also affected by the general small size of the project which will increase its marketability and the potential attractiveness to single occupiers. The exit capitaliasation rates take account of the location and the nature of the proposed development, and as such are approximately 5-5.5% above the current prime capitalisation rates (see above):

Base Rent Summary						
Year	Zone 1	Zone 2	Zone 3	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	New Building	Surface	Undergrd	
2005	420		440	1200	2400	16.0%
2006	420		440	1200	2400	15.0%
2007	420		440	1200	2400	14.0%
2008	420		440	1200	2400	13.0%
2009	420		440	1200	2400	12.0%
2010	420		440	1200	2400	11.5%

Base Rent Summary						
2011	420		440	1200	2400	11.0%
2012	420		440	1200	2400	10.5%
2013	420		440	1200	2400	10.0%
2014	420		440	1200	2400	10.0%

Lease Up and Vacancy Rates

The proposed conversion of the building would produce a comparatively small amount of office space. It is projected that this would be entirely pre-leased subject to the long term vacancy rate which has been assessed as 10%. This is significantly higher than other projects and the overall average level for the market in the city but is intended to take account of the location of the Property away from the city centre and more established commercial areas.

Discount Rate

A discount rate of 25% has been used for this project in line with other MGTS projects.

MGTS building, OKtyabrskaya str., 103

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Location:	103, Oktyabrskaya str., Moscow, Russia
Ownership:	The building improvements are owned by OAO “Moscow Municipal Telephone Service”. Land is held by OAO “Moscow Municipal Telephone Service” on a leasehold from the Moscow Land Committee. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013432 dated 28 August 1995 according to the Moscow State Registration Certificate. The rights for long-term (10 years) lease for this land plot: Agreement with Moscow Land Committee # M-02-001612 dated 12.01.1995. We have been informed that the outstanding costs for legal and permitting issues amount to US$1,046,000. This has been taken into account in the valuation below.
Date of Inspection:	September 30, 2005
Location:	The property is located in the Novoslobodsky District of Moscow.
Total Floor Area of the Building:	3,005.30 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The building has four above ground floors and basement facility. Telephone exchange equipment is located on the third and fourth floors. There is an empty hall on the second floor due to dismantled equipment. The technical space and security occupy the first floor.

Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four above ground floors and a basement.
Land area:	4,000 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide office centre.
Final Value Conclusion:	**US$6,900,000**

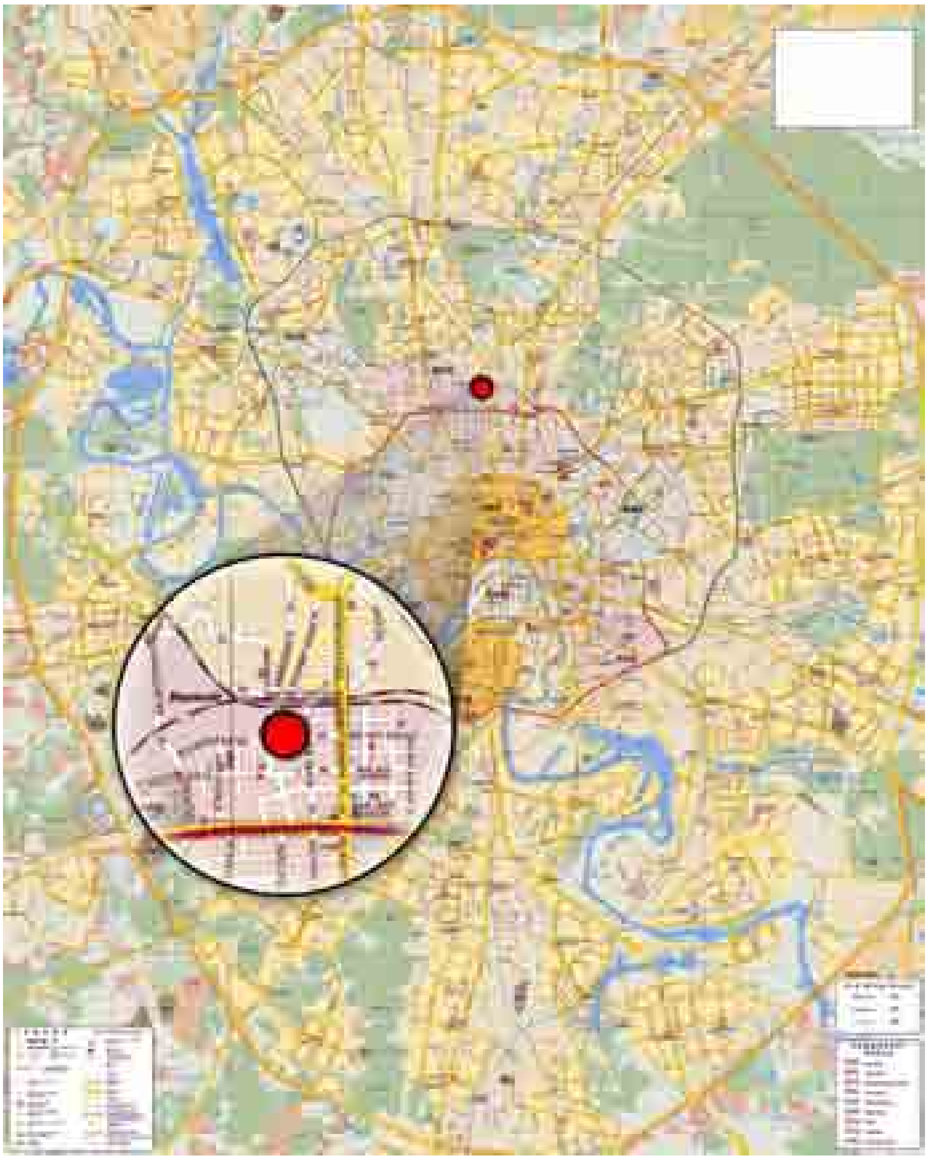
Property Description

Location

The subject property is located in Moscow Novoslobodsky District three blocks from the Third Ring Road at 103, Oktyabrskaya street. The street is mainly occupied by residential buildings.

The site is located a good distance from the nearest metro stations - Rigskaya and Savelovskaya are situated within 10 minutes by public transport. There is good vehicle access to the building from Sustchevsky Val street and Sheremet'evskaya street.

Two railway stations, Rigky and Savelovsky Vokzal, are situated not far from the site.



Site Description

The site contains 4,000 square metres of land in accordance with Land Lease Agreement #M-02-001612, most of which is covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility providing a gross area of 3,005.30 square metres. The existing use is as a telecommunications central exchange. Telephone exchange equipment is located on the third and fourth floors. There is a heating system is on each floor, there is also ventilation system in the building. There are no lifts in the building. The fit-out in the building is in very poor condition. There is an empty hall on the second floor. There is also a small, brick one storey building near the MGTS property and on the same land plot.. It was rented by a tenant, however the lease is in the process of being surrendered.

The property is held for development. The development is anticipate to commence in the first quarter of 2006 and to be completed in the second quarter of 2007 to include a renovation and extension of the existing structure to provide 10,000 square metres of Class B office accommodation. The project is currently under development so the total area of the development is subject to revision.

Valuation Commentary

General	The property lies to the north of the city close to the third ring road and as such has decent access. This is a devleped commercial sub-market and the renovation of the existing building to provide class B office space is considered the most appropriate use. There is strong demand for developments of this type in this area.
Costs	Total costs include the legal and permitting costs outlined above.

Comparables

Property	Office-residential complex	Admini. building	Office Centre
Submarket	NOV	NOV	NOV
Building Class		B	B
Location	Ortabrskaya ul.	Trifonovskaya ul., 47, bld. 1	Trifonovskaya ul., 57
Nearest metro	Rizhskaya	Rizhskaya	Rizhskaya
Total area (sq.m)		7,000	
Rent rate/sq.m	$450 including VAT	$400-500	$580
Opex		included	
Parking slots		surface: 50; underground: 50	surface: 50slots underground: 30 slots

Projected Returns

There is continuing strong demand and low vacancies for B class offices in this area. This has been taken account below, as has the type of development in assessing the exit capitalisation rates:

Base Rent Summary						
Year	Zone 1	Zone 2	Zone 3	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	New Building	Surface	Undergrd	
2005	420		450	1200	2400	16.0%
2006	420		450	1200	2400	15.0%
2007	420		450	1200	2400	14.0%
2008	420		450	1200	2400	13.0%
2009	420		450	1200	2400	12.0%
2010	420		450	1200	2400	11.5%
2011	420		450	1200	2400	11.0%
2012	420		450	1200	2400	10.5%
2013	420		450	1200	2400	10.0%
2014	420		450	1200	2400	10.0%

These rents are entirely in line with the comparables above, and are at the lower end of the indicated range, due to the fact that this is a reconstruction and therefore the general deficiency in parking. The exit capitalisation rates are approximately 5-5.5% higher than the current prime rates for class A offices. This takes account of the class of the Proposed development, its location, the parking provision and all other factors and is in line with the capitalisation rates used for similar projects in this valuation report.

Lease Up and Vacancy Rate	As with Simpheropolsky above – the size of the property suggest that it would be fully pre-leased subject to the long term vacancy rate, which has again been assessed at 10% and for the same reasons.
Discount Rate	A discount rate of 25% has been used for this project.

MGTS BUILDING – NAGATINSKAYA 4G

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	Nagatinskaya street, 4 G Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AB 600515 on 15 April 2005 according to the Moscow State Registration Certificate. The rights for long-term (10 years) lease for this land plot: Agreement with Moscow Land Committee # M-05-001986 dated 06.04.1995. We have been informed that the outstanding costs to finalise all legal and permitting issues are US$1,068,000. These costs have been taken into account in the valuation analysis.
Date of Inspection:	October 5, 2005
Location:	The property is located in the South Business District of Moscow.
Total Floor Area of the Building:	3,357.9 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The Building comprises a four-storey brick building with a total area of 3,357.9 square metres.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four above ground stories.

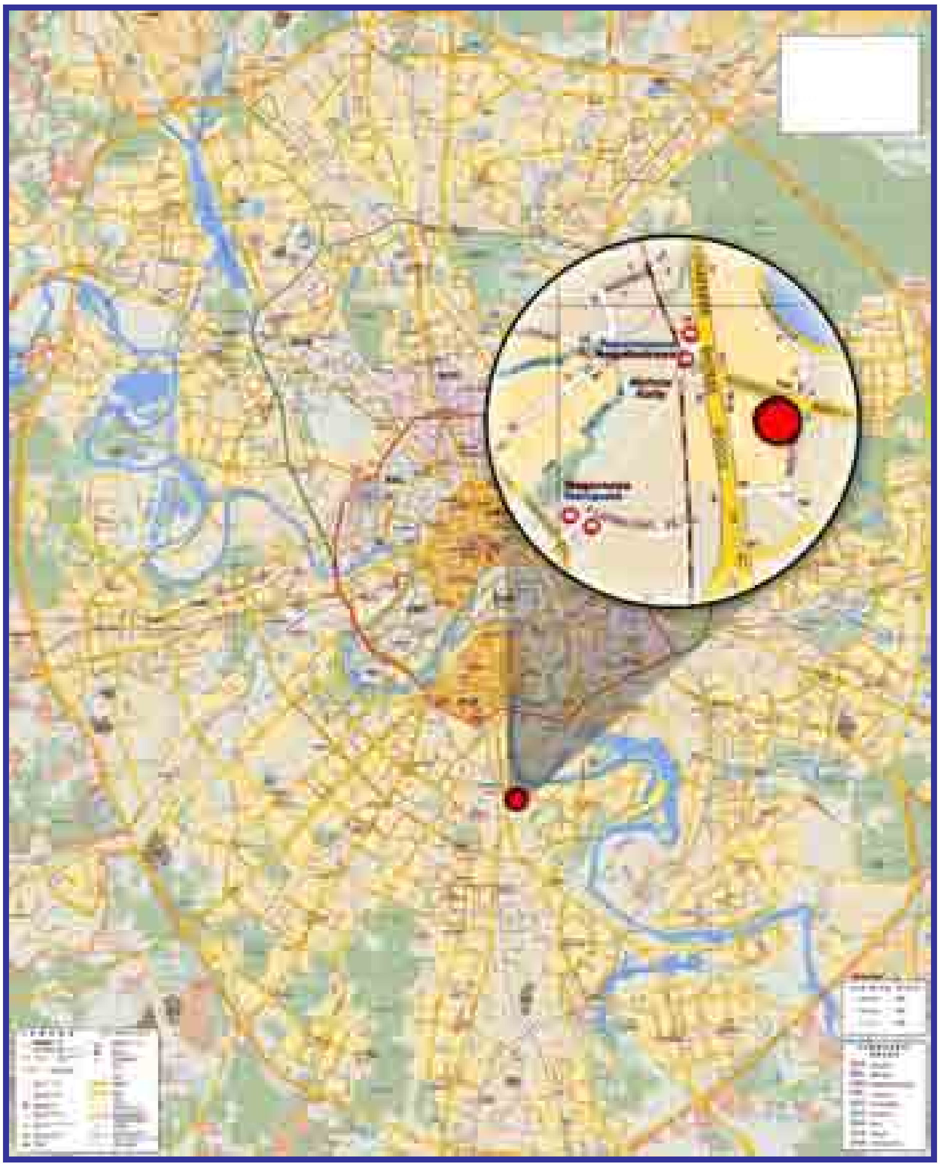
Land area:	3,328 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide Class B office building.
As Improved:	Finish construction and operate as Class B office building.
Final Value Conclusion:	**US$6,600,000**

Property Description

Location

The subject property is located in the South Business District of Moscow. There are a lot of industrial properties, such as "Nagatinskaya fair" jewellery factory and college #34 near the site. The property is located near the local tramways. The district is generally industrial in nature and the overall environment is of poor quality. The site is located within seven minutes walk from "Nagatinskaya" metro station.

There is good vehicle access to the building from Moscow Centre, Varshavskoye shosse and MKAD-South.



Site Description

The site contains 3,328 square metres of land in accordance with Land Lease Agreement #M-05-001986 the most of which will be covered by the building improvements. The site is regular in shape. There is also a one floor storage building on the land plot in front of the MGTS property.

Improvements Description

The property comprises a standard building constructed in 1967, arranged over four floors above ground, providing a gross area of 3,357.9 sqm. The existing use is as a telecommunications central exchange. The telephone exchange equipment is located on the second, third and fourth floors. Renovation works were carried out last year on the majority of floors. The heating system was changed in the whole building in 2003. There is a ventilation system on each floor. The ceiling height is approximately 4,5 metres. There is a room on the first floor where the telephone equipment was already removed in in order to make space fot the new equipment installation.

The property is held for development. The development is anticipated to commence in the first quarter of 2006 and to be completed in the third quarter of 2007 to provide a total area of 10,000 square metres of office space in Class B Business Centre.

Valuation Commentary

General

An easily accessible location to the south of the city. The area is industrial in nature and therefore residential development is not considered appropriate. The provision of a class B business centre in this location should prove to be successful and the concept is considered to be the correct one, although there are no detailed proposals at this stage.

Costs

Total costs include all of the legal and permitting costs outlined above.

Comparables

Property	Nagatinskaya ul., 1, bld. 2A	Nagatinskaya ul., 1, bld. 29	Nagatinskaya nab., 1, bld14
Submarket	OTA	OTA	OTA
Building Class	B	B	B
Location	Nagatinskaya ul., 1 bld. 2A	Nagatinskaya ul., 1 bld. 29	Nagatinskaya ul., 1 bld. 14
Nearest metro	Nagatinskaya	Nagatinskaya	Nagatinskaya
Total area (sq.m)	9,000	9,000	7,500
Rent rate/sq.m	$343	$301	$265
Opex	$80	$80	$80
Parking slots	0	80	80
Comments	Under construction		Under construction

Projected Returns

The comparable information is somewhat limited but has been used to generate the following projections:

Base Rent Summary						
Year	Zone 1	Zone 2	Zone 3	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	New Building	Surface	Undergrd	
2005	400		420	1200	2400	16.0%
2006	400		420	1200	2400	15.0%
2007	400		420	1200	2400	14.0%
2008	400		420	1200	2400	13.0%
2009	400		420	1200	2400	12.0%
2010	400		420	1200	2400	11.5%
2011	400		420	1200	2400	11.0%
2012	400		420	1200	2400	10.5%
2013	400		420	1200	2400	10.0%
2014	400		420	1200	2400	10.0%

The rents are slightly above the comparables, but below the market average levels. This reflects that it is a comparatively small develpoment which should prove highly marketable, and also that the comparable properties are of an inferior quality. The exit capitalisation rates used are the same as for similar projects above and are approximately 5-5.5% above the current market prime yields.

Lease Up and Vacancy Rate

This project is slightly larger than some of the other pure conversions analysed above as an element of new build has been included in the plans. Therefore a period has been allowed for the lease up of the completed premises. Subject to the long term vacancy rate occupancy has been assessed as an average of 70% in the first year, 85% in the second year and at the long term occupancy thereafter.

As with Oktyabysakaya above the long term vacacny rate has been assessed at 10% and for the same reasons.

Discount Rate

A discount rate of 27.5% has been used for this project. The development proposals appear somewhat arbitrary as they would require renovation of the existing premises together with some new construction. Therefore a higher discount rate is used.

MGTS building, Nagatinskaya str., 34

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	Nagatinskaya street, 34, Moscow, Russia
Ownership:	The building improvements are owned by OAO “Moscow Municipal Telephone Service”. Land is held by OAO “Moscow Municipal Telephone Service” on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 HH 032654 on 06 April 2001 according to the Moscow State Registration Certificate. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AA 352534 on 18 January 2002 according to the Moscow State Registration Certificate. The rights for long-term (10 years) lease for this land plot: Agreement with Moscow Land Committee # M-05-002005 dated 07.04.1995. We have been informed that the outstanding costs for legal and permitting issues are US$955,000. This has been taken into account in the valuation analysis
Date of Inspection:	October 5, 2005
Location:	The property is located in the South Business District of Moscow.
Total Floor Area of the Building:	3,188.4 square metres – according to the Moscow State Registration Certificate 207.8 square metres – according to the Moscow State Registration Certificate
Property Description:	Standard exchange building. The Building comprises a four-storey brick building with a total area of 3,188.4 square metres.

Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for “C”- class.
Number of stories:	Four above ground floors.
Land area:	3,634 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide Class B office building.
As Improved:	Finish construction and operate as Class B office building
Final Value Conclusion:	**US$11,600,000**

Property Description

Location

The subject property is located in the South Business District of Moscow. In the vicinity there are old low-rise and high-rise residential buildings, retail centre "Perekrestok", "Tekhno-sila", and heating and power plants. The property is located near the road. The district can be characterized as a quiet district. The site is located within five minutes walk from "Kolomenskaya" metro station where a Retail Centre is being built by "Garant-Treid M" investor. The construction of this centre is commencing date IV quarter of 2005 to provide a total area of 3,150 square metres and parking facility for 66 parking slots.

There is a good vehicle access to the building from Moscow Centre, Varshavskoye shosse, MKAD-South.

Site Description

The site contains 3,634 square metres of land in accordance with Land Lease Agreement #M-05-002005 most of which will be covered by the building improvements. The site is calm in shape.

Improvements Description

The property comprises a standard building constructed in the 1968's, arranged over four floors above ground, providing a gross area of 3,188.4 sqm. The existing use is as a telecommunications central exchange. The telephone exchange equipment is located on each floor except for the first floor. Renovation works were carried out last year on each floor. The heating system was changed in the whole building in 2004. There is a ventilation system on each floor and a conditioner in the rest room on the second floor.

The property is held for development. The development is anticipated to commence in the first quarter of 2006 and to be completed in the third quarter of 2007. This projected timescale seems to be ambitious as the redevelopment proposals are for a new building to provide a total area of 22,309 square metres of office space in a Class B Business Centre.

Valuation Commentary

General

Similar location to the property outlined above – and therefore the same uses are appropriate. Again the development proposals appear arbitrary. Conflicting information has been supplied as regards the proposed level of development. The larger proposals have been used as the basis of analysis, but further confirmation on this point is required.

Costs

Total costs include all legal and permitting costs outlined above.

Comparables

As above.

Projected Returns

Base Rent Summary						
Year	Zone 1	Zone 2	Zone 3	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	New Building	Surface	Undergrd	
2005	390		410	1200	2400	16.0%
2006	390		410	1200	2400	15.0%
2007	390		410	1200	2400	14.0%
2008	390		410	1200	2400	13.0%
2009	390		410	1200	2400	12.0%
2010	390		410	1200	2400	11.5%
2011	390		410	1200	2400	11.0%
2012	390		410	1200	2400	10.5%
2013	390		410	1200	2400	10.0%
2014	390		410	1200	2400	10.0%

These rents are capitalisation rates are entirely in line with those used for Nagatinskaya 4G above as the location is very similar.

Lease Up and Vacancy Rate

The long term vacancy rate used is the same as for Nagatinskaya 4G and for the same reasons and is assessed at 10%.

The proposed development of this Property is intended to provide more office space and therefore a slighlty slower lease up schedule has been used – the first year average rate is assessed at 60% of the long term occupancy rate, the second year at 75%, the third year at 90% and afterwards at the long term occupancy rate.

Discount Rate

A discount rate of 27.5% has been used for this project due to the uncertainty over the actual level of development.

MGTS building, Zorge str., 3

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Location:	3, Zorge str., Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the Moscow Land Committee. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013489 dated 28 August 1995 according to the Moscow State Registration Certificate. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013500 dated 28 August 1995 according to the Moscow State Registration Certificate. The rights for long-term (15 years) lease for this land plot: Agreement with Moscow Land Committee # M-09-002024 dated 11.04.1995. We have been informed that the outstainding costs in respect of legal and permitting issues are US$829,000. This has been taken into account in the valuation analysis
Date of Inspection:	September 29, 2005
Location:	The property is located in the Sokol District of Moscow.
Total Floor Area of the Building:	2,873 square metres – according to the Moscow State Registration Certificate 120.90 square metres – according to the Moscow State Registration Certificate

Property Description:	Standard exchange building. The building has four floors and basement facility. Telephone exchange equipment is located on the fourth floor. The second and third floor are occupied by the tenant UIRIS. The technical space and security are situated on the first floor.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four floors and a basement.
Land area:	5,025 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide a class B office centre.
Final Value Conclusion:	**US$4,400,000**

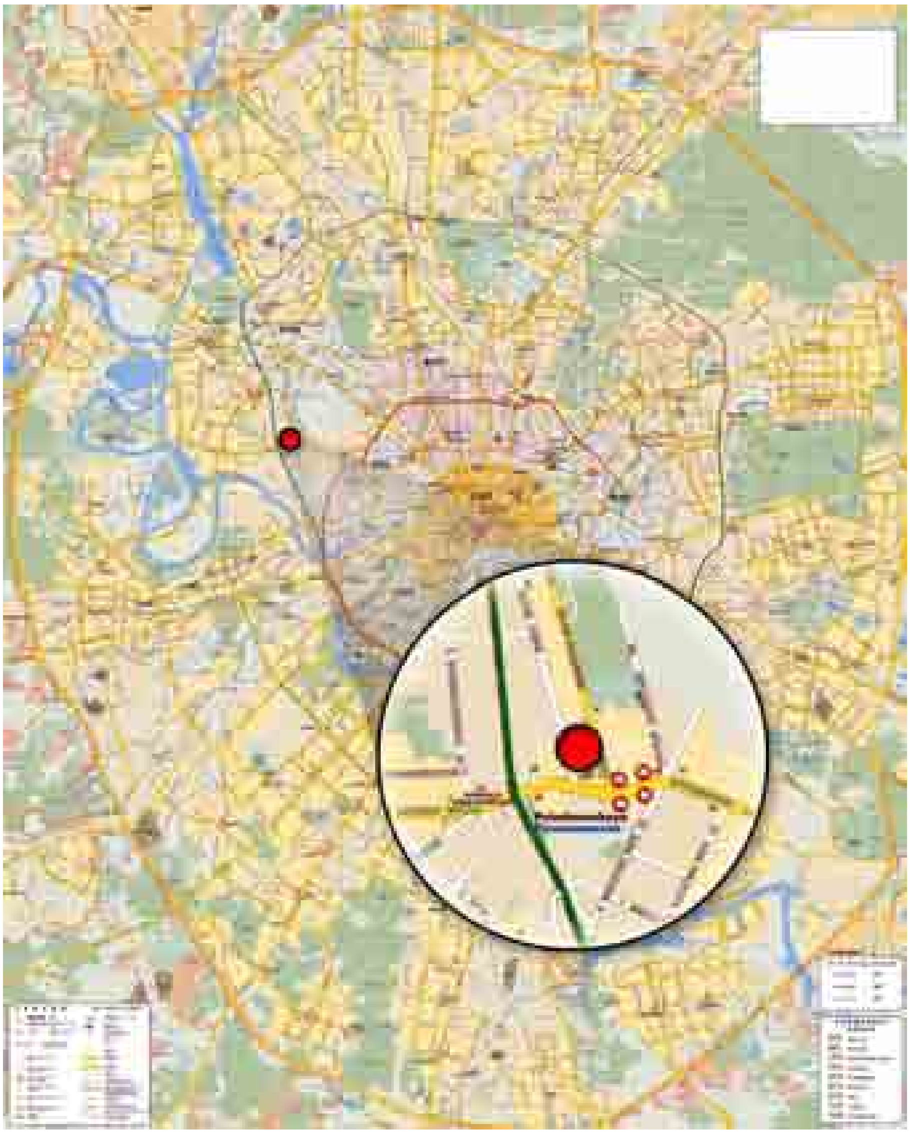
Property Description

Location

The subject property is located in the South-West District of Moscow, Khoroshevsky region at 3, Zorge street.

The nearest metro station, Polezhaevskaya, is situated within approximately five minutes walk from the site. There is good vehicle access to the building from the Khoroshjovskoe shosse.

The building is surrounded mainly by residential buildings and retail areas.



Site Description

The site contains 5,025 square metres of land in accordance with Land Lease Agreement #M-09-002024, most of which is covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility providing a gross area of 2,873.00 square metres. The existing use is as a telecommunications central exchange. Telephone station equipments are located on the fourth floors. Heating system is on each floor, there is also ventilation system in the building. There are no elevators in the building. On the first, second and third floor the renovation works were held in 1997 and 2005. The second and third floor are occupied by the tenant UIRIS (Management of information resources and systems).

The property is held for development. The development is anticipated to commence on 01.06.2006 and to complete on 30.06.2008 to provide 10,000 square metres of Class B office accommodation. The project is currently under development so the total area of the property could be changed, the number of slots is under approvement.

Valuation Commentary

General — A similar location to Mashala Zhukova above, and similar development proposals to provide Class B offices.

Costs — Total costs include all legal and permitting costs.

Comparables — See Marshala Zhukova etc. above.

Projected Returns

Base Rent Summary						
Year	Zone 1	Zone 2	Zone 3	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	New Building	Surface	Undergrd	
2005	450		450	1200	2400	19.0%
2006	450		450	1200	2400	18.0%
2007	450		450	1200	2400	17.0%
2008	450		450	1200	2400	16.5%
2009	450		450	1200	2400	16.0%
2010	450		450	1200	2400	15.0%
2011	450		450	1200	2400	14.0%
2012	450		450	1200	2400	13.0%
2013	450		450	1200	2400	12.0%
2014	450		450	1200	2400	11.0%

The exit capitalisation rates used are significanlty above the current prime rates. This reflects the fact that a conversion to a class B office in this location, and of such a small size, is not going to be an attractive investment product. However – due to its size, there may be a premium to be generated from a sale to an owner occupier.

Lease Up and Vacancy

This is a small project and therefore it is expected to be entirely pre-leased. The long term vacancy rate has been assessed at 5%. The western side of the city is more attractive than the eastern side, and this area is a develping commercial location, hence the use of 5% as a vacancy rate in comparison with the projects directly above.

Discount Rate

A discount rate of 25% has been used for this project.

MGTS building, Aviatsionnaya str., 57, bld. 1

Property Name:	MGTS building on Aviatsionnaya.
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	57, b.1 Aviatsionnaya St., Moscow, Russia,
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the Moscow Land Committee. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 АБ 047921 dated 13 May 2003 according to the Moscow State Registration Certificate. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013497 dated 28 October 1995 according to the Moscow State Registration Certificate. The rights for long-term (15 years) lease for this land plot: Agreement with Moscow Land Committee # M-08-001381 dated 30.11.1994. We have been informed that the outstanding costs in respect of the legal and permitting issues are US$972,000. This has been taken into account in the valuation analysis.
Date of Inspection:	September 29, 2005
Location:	The property is located in the North-West District of Moscow, Schukinsky region.
Total Floor Area of the Building:	3,039.6 and 204.70 square metres – according to the Moscow State Registration Certificate.

Property Description:	Standard exchange building. The building has four floors and basement facility. The second and third floors are used for call centres, the fourth – for office areas. The technical space and security are located on the first floor.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four floors and a basement.
Land area:	3,193 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide office centre class B.
Final Value Conclusion:	**US$8,000,000**

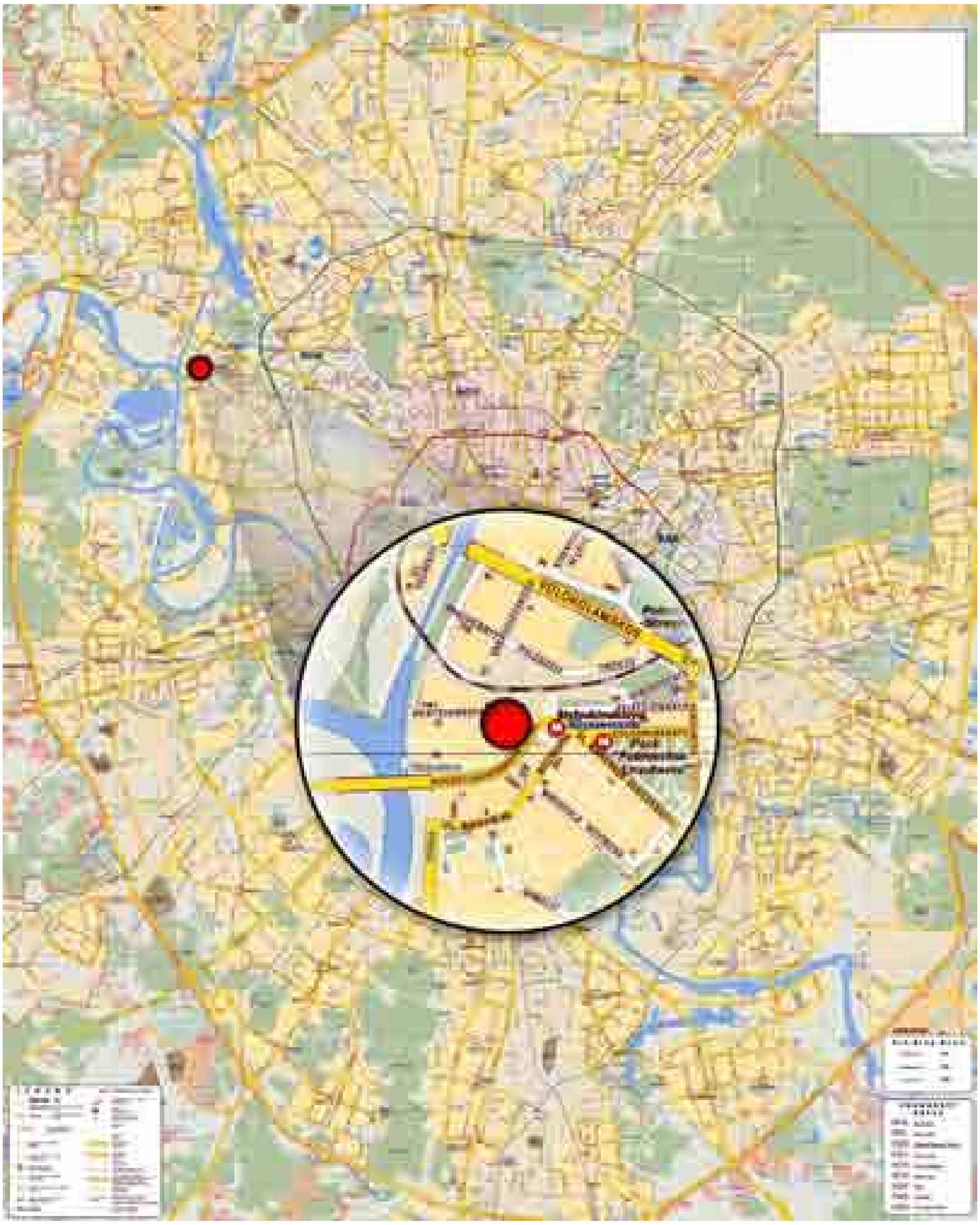
Property Description

Location

The subject property is located in the North – West District of Moscow, Schukinsky region at 57, b.1 Aviatsionnaya. The nearest metro station, Schukinskaya is situated within approximately 3 minutes walk. The building is surrounded by residential buildings: most of which are "enhanced comfort". Not far from the property there is a well known retail complex "Alie Parusa". According to a government programme some of the old residential buildings, which are located closed to the appraised property are planned for demolition.

Retail centre "Alye Parusa" is situated closed to the building.

There is a good vehicle access to property from the Novoschukinskaya and Marshala Vasil'evskogo streets.



Site Description

The site contains 3,193 square metres of land in accordance with Land Lease Agreement #M-08-001381, most of which is covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility together providing a gross area of 3,039.60 square metres. The existing use is as a telecommunications central exchange.

The property is held for development. The development is anticipated to commence in the first quarter of 2006 and to be completed in the fourth quarter of 31.12.2007. Again this timescale seems to be optimistic as the development is projected to be a new building to provide 21,000 square metres of Class B office accommodation. The project is currently under development so the total area of the property could be changed.

Valuation Commentary

General

Similar location to Zorge, Zhukova etc. and a similar intended use, but at a greater density of development. There are a number of properties in the same location for similar types of development. If these were to be marketed, careful consideration would have to be given to the timing of any sales, and in deed any development, in order to optimise returns.

Costs

Total costs include the outstanding costs in respect of the legal and permitting issues.

Comparables

See Marshala Zhukova etc. above.

Projected Returns

Base Rent Summary						
Year	Zone 1	Zone 2	Zone 3	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	New Building	Surface	Undergrd	
2005	360		390	1200	2400	17.0%
2006	360		390	1200	2400	16.0%
2007	360		390	1200	2400	15.0%
2008	360		390	1200	2400	14.0%
2009	360		390	1200	2400	13.5%
2010	360		390	1200	2400	13.0%
2011	360		390	1200	2400	13.0%
2012	360		390	1200	2400	12.5%
2013	360		390	1200	2400	12.0%
2014	360		390	1200	2400	12.0%

A slighlty lower level of rents has been used for this Property than, for instance, Zorge. This reflects the fact that this is a larger development project and in such cases the rents achieved tend to be, on average, lower. Conversly – the larger project with a slightly better location would be a more attractive investment product and therefore the exit capitalisation rates have been assessed at around 6-6.5% above the current prime rates. This still represents a significant discount from prime product, but this is believed to provide a fair assessment of the relative attractiveness of the proposed development for investment purposes.

Lease Up and Vacancy Rate

Due to the larger size of the Property a higher long-term vacancy rate has been assessed at 12.5%. In addition, a period has been allowed for lease up – in order to teach the long-term occupancy rate, with an average occupancy for the first year projected at 60% of the long term average, 70% for the second year, 85% for the third year and thereafter at the long term trend rate. As the assumed sale takes place in the second year the sales price is assessed on this lower occupancy and is therefore discounted accordingly.

Discount Rate

A discount rate of 27.5% has been used for this project. There is a greater scale of development than some of the other projects which would require a sizeable new building. Limited information is currently available as to the details of this proposed development.

MGTS building, timiryazevskaya str., 1a, bld. 1

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	1A, b.1 Timiryazevskaya St., Moscow, Russia
Ownership:	The building improvements are owned by OAO “Moscow Municipal Telephone Service”. Land is held by OAO “Moscow Municipal Telephone Service” on a leasehold from the Moscow Land Committee. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 АБ 156436 dated 13 May 2003 according to the Moscow State Registration Certificate. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013425 dated 28 October 1995 according to the Moscow State Registration Certificate. The rights for long-term (15 years) lease for this land plot: Agreement with Moscow Land Committee # M-09-001471 dated 19.12.1994. We have been informed that the outstanding costs in respect of legal and permitting issues are US$416,000. This has been taken into account in the valuation analysis.
Date of Inspection:	October 3, 2005
Location:	The property is located in the Novoslobodsky District of Moscow.
Total Floor Area of the Building:	3,129.1 and 204.10 square metres – according to the Moscow State Registration Certificate.
Property Description:	Standard exchange building. The building has four floors and basement facility. Telephone exchange equipment is located on the first, second, third and fourth floors. The technical space and security are also occupied on the first floor.

Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Four floors and a basement.
Land area:	3,575 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide office centre of Class B.
Final Value Conclusion:	**US$2,500,000**

Property Description

Location

The subject property is located in the North – West District of Moscow closed to Dmitrovskoe Shosse at 1A, Timiryazevskaya Street. The area of the Property is mainly occupied by residential and industrial buildings.

The building is located not far from the nearest metro station - Dmitrovskaya is situated within approximately 10 minutes walk. There is a good vehicle access to the building from Rustaveli street.

The railway station Dmitrovskaya is also situated not far from the property.

Site Description

The site contains 3,575 square metres of land in accordance with Land Lease Agreement #M-09-001471, most of which is covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1970's, arranged over four floors and basement facility providing a gross area of 3,129,1 square metres. The existing use is as a telecommunications central exchange. Telephone station equipments are located on the first, second, third and fourth floors. There is a heating system on each floor, there is also a ventilation system in the building. There are no lifts in the building. There is also a small, brick one storey situated on the same land plot.

The property is held for development. The development is anticipated to commence in the first quarter of 2006 and to be completed in the third quarter of 2007 to include a renovation of the existing structure to provide an office building of Class B. The project is currently being formulated so the precise areas and form of the devlopment are subject to change.

Valuation Commentary

General

The location has good accessibility, but currently limited development details are available. A standard approach to the renovation of the existing structure has been assumed.

Costs

Total costs include the outstanding legal and permitting costs.

Comparables

Property	Butyrskaya ul., 77	Novodmitrovskaya Bol. ul., 23	Office Building
Submarket	NOV	NOV	NOV
Building Class	B	B	B
Location	Butyrskaya ul., 77	Novodmitrovskaya Bol. Ul., 23, bldg.5	Pryanishnikova ul.
Nearest metro	Dmitrovskaya	Savelovskaya	Timiryazevskaya
Total area (sq.m)	16,500	4,000	
Rent rate/sq.m	$441	$375	$320 incl. VAT
Opex	$80		
Parking slots	130		
Comments	Under Construction		

Property	Business Centre	Office building
Submarket	NOV	NOV
Building Class	B+	B
Location	Dobrolubova ul.	Rustavelli ul., 14
Nearest metro	Dmitrovskaya metro station	Dmitrovskaya metro station
Total area (sq.m)		
Rent rate/sq.m	$450 per sq.m/year, including VAT	$350 per sq.m/year, including VAT
Opex		
Number of Parking slots		
Comments		

Projected Returns

There is a good level of comparable information available in this area and this has been used to generate the following projected returns:

Base Rent Summary					
Year	Zone 1	Zone 2	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	Surface	Undergrd	
2005	375		1200	2400	17.0%
2006	375		1200	2400	16.0%
2007	375		1200	2400	15.0%
2008	375		1200	2400	14.0%
2009	375		1200	2400	13.5%
2010	375		1200	2400	13.0%
2011	375		1200	2400	13.0%
2012	375		1200	2400	12.5%
2013	375		1200	2400	12.0%
2014	375		1200	2400	12.0%

These average rental levels are the average level of the comparables outlined above. As with Aviatsionnaya the exit capitalisation rates are approximately 6-6.5% above the prime rate. This reflects the fact that the Property will be a renovation, its location and the parking situtation.

Lease Up and Vacancy Rate

This is a very small Property, with under 3,000 square metres of projected office space. It has therefore been projected that it will be fully pre-leased and the long term vacancy rate has been assessed at 5%, in line with the figures used elsewhere in the report.

Discount Rate

A discount rate of 25% has been used for this project.

MGTS building, marshala zhukova prosp., 52/2. bld. 1

Property Name:	MGTS building
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Address:	Marshala Zhukova pr-kt., 52/2, bld., 1, Moscow, Russia
Ownership:	The building improvements are owned by OAO “Moscow Municipal Telephone Service”. Land is held by OAO “Moscow Municipal Telephone Service” on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 AB 270486 on 11 June 2003 according to the Moscow State Registration Certificate. Ownership for the building was registered in the Moscow Property Committee with identification No. A 0013494 on 28 August 1995 The rights for long-term (15 years) lease for this land plot: Agreement with Moscow Land Committee # M-08-001382 dated 30.11.1994. We have been informed that the outsanding costs in respect of legal and permitting issues are US$475,000. This has been taken into account in the valuation analysis.
Date of Inspection:	October 5, 2005
Location:	The property is located in the North-West Business District of Moscow.
Total Floor Area of the Building:	1793,3 square metres – according to the Moscow State Registration Certificate. 201, 50 square metres– according to the Moscow State Registration Certificate.

Property Description:	Standard exchange building. The Building comprises a two-storey brick building plus basement facilities with a gross area of 1,793.3 square metres.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C"- class.
Number of stories:	Two above ground stories and basement facilities
Land area:	3,166 square metres
Land use specification:	For central exchange building
Highest and Best Use As Vacant:	Redevelopment of the existing MGTS building to provide Class B office building.
Final Value Conclusion:	**US$3,650,000**

Property Description

Location

The subject property is located in the North-West Business District of Moscow. The property is surrounded by residential buildings, both modern high-rise residential buildings and old soviet era residential buildings. There are some small shops and a kindergartens located near the site. The district can be characterized as a quiet commueter district. The nearest metro stations to the object are "Polezhaevskaya" and "Oktyabrskoye Pole", but they can only be reached by local public transport.

There is a good vehicle access to the building from Leningradskoye shosse, Generala Glagoleva, Mnevniki and Marshala Tukhachevskogo streets.

Site Description

The site contains 3,166 square metres of land, most of which will be covered by the building improvements. The site is calm in shape. There is also one floor storage building in the land plot in front of the MGTS property, with the total area of 201, 50 square metres; it's rented by a tenant at the moment.

Improvements Description

The property comprises a standard building constructed in the 1962's, arranged over 2 floors above ground and 1 basement level, providing a gross area of 1793.3 square metres. The existing use is as a telecommunications central exchange with the ground floor used as offices and technical facilities. There are heating and ventilation systems on each floor. The telephone exchange equipment is located only on the second floor. Renovation works have benn carried out on the first floor: an old storage facility and storage room were demolished and maintenance works have been done.

The property is held for development. The development is anticipated to commence in the first quarter of 2006 and to be completed by the third quarter of 2008 to provide a total area of 5,000 square metres of office space in a Class B Business Centre. The Developer has not, though, finally decided upon the form of development. This suggests that the projected timeline is ambitious as once the form of development has been decided upon there it will be necessary to go through the permitting process.

Valuation Commentary

General	The property is located in a quiet location to the west of the city, and would be suitable for renovation for class B offices, or perhaps residential. We hoave not been provided with any details on the proposed development. As an office development is the the most straightforward it creates the most value and has therefore been assumed for this anaylsis.
Costs	Total costs include the legal and permitting costs outlined above.

Comparables

Property	Serebryanyi kvartet retail-office centre	Magistral Business Centre	Office-residential complex
Submarket	North-west	North-west	North-west
Building Class	B	B	B+
Location	Marshala Zhukova pr.	4-ya Magistralnaya ul.	Zhukova prospect., 54
Nearest metro	Polezhevskaya	Polezhaevskaya	Polezhaevsaya
Total area (sq.m)	2,500	10,800	
Rent rate/sq.m	\$450-\$700 incl. VAT	\$340 - \$390 incl. VAT	\$400 incl. VAT
Opex		included	
Parking slots	Surface: 20 Underground: 10		

Projected Returns

As before, based on the comparables, the expected form of development and therefore its performance.

Base Rent Summary						
Year	Zone 1	Zone 2	Zone 3	Parking		Cap. Rate
	Renovated Class B Offices	New exchange space	New Building	Surface	Undergrd	
2005	375		400	1200	2400	17.0%
2006	375		400	1200	2400	16.0%
2007	375		400	1200	2400	15.0%
2008	375		400	1200	2400	14.0%
2009	375		400	1200	2400	13.5%
2010	375		400	1200	2400	13.0%
2011	375		400	1200	2400	13.0%
2012	375		400	1200	2400	12.5%
2013	375		400	1200	2400	12.0%
2014	375		400	1200	2400	12.0%

These projected returns are at the lower end of the ranges outlined by the comparables and reflects the general attractiveness of a renovated office space and the lack of underground parking. The exit capitalisation rates are in line with other projects in this area of the city included in this report – representing a level 6-6.5% above the current prime market yield.

Lease Up and Vacancy	Again this is a very small development. It is therefore been projected that it will be fully pre-leased. Due to its relative visbility a slighlty higher level of long-term vacancy rate has been assessed at 7.5%
Discount Rate	A discount rate of 25% has been used for this project.

MGTS Property – Milutinsky Pereulok 5

Property Name:	MGTS building on Milyutinsky per.
Property Type:	Central exchange
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land.
Location:	5/2 Milyutinsky lane Moscow, Russia
Ownership:	The building improvements are owned by OAO "Moscow Municipal Telephone Service". Land is held by OAO "Moscow Municipal Telephone Service" on a leasehold from the city government. Ownership for the building was registered in the Moscow Property Committee with identification No. 77 АБ 588022 on 16 June 2004 according to the Moscow State Registration Certificate. The title documents on the land lease rights as regards the 3,834 square metre site are currently under affirmation at the Moscow Land Committee. We have assumed that the Moscow Land Committee will execute a lease agreement with MGTS within a reasonable time period. We have been informed that the outstainding costs in respect of legal and permitting issues are US$6,500,000. These have been included in the valuation analysis.
Date of Inspection:	September 12, 2005
Location:	The property is located in the Central Administrative District of Moscow, Krasnoselsky region.
Total Floor Area of the Building:	6,860.8 square metres – according to the Moscow State Registration Certificate.
Property Description:	It is a standard exchange building built at the end of the 1970s. The Building comprises a nine storey building plus underground floor with a gross area of 6,860.8 square metres.
Quality of construction:	Average finishing materials are used for the interiors and exteriors of the building. The engineering systems of the building are made entirely of local equipment of an average quality. In general, the level of the finishing and equipment of the Building conforms to the standards for "C" class.
Number of stories:	Nine above ground stories and basement facilities

Land area: 3,834 square metres

Land use specification: For central exchange building

Final Value Conclusion: **US$4,800,000**

Property Description

Location

The subject property is located in the Moscow Central Business at Milyutinsky lane 5, b.2.

The nearest metro station is Lubyanka, at 5 minutes walking distance. The object can be easily accessed by car from the Boulevard Ring.

There are many reconstructed buildings in the area. The building is surrounded by administrative buildings

Site Description

The site contains approximately 3,834 square metres of land, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in the 1970's, arranged over 9 floors above ground and 1 basement level, providing a gross area of 6,860.8sqm. The existing use is as a telecommunications central exchange with some vacant areas.

The property is held for development. The development is projected to commence in the third quarter of 2006 and to be completed by the third quarter of 2007 to include a renovation and extension of the existing structure to provide 10,000 sqm of hotel accommodation together with surface car parking for 50 slots.

As outlined below – this is not considered to be the Highest and Best Use of the property as it lies in a predominantly commercial area. Renovation to form an office building would generate significantly more value than a hotel development, and the analysis has been carried out on this basis, including using a realistic timescale for the development.

CUSHMAN & WAKEFIELD STILES & RIABOKOBYLKO

Valuation Commentary

General

The property is superbly located in the heart of the commercial centre of Moscow. The intitial plans of the Compay are to redevelop the property to form a hotel – however, these are at a very early stage and this use would not create the most value.

Due to the limited amount of information that is currently avaialbe it is assumed that the existing building would be renovated to provide new exchange space and office space. An office building in this location would be considerably more valuable than a hotel.

Costs

Total costs include the significant outstanding costs for legal and permitting issues outlined above. Renovation of the building to offices would be straight forward and cost effective.

Comparables

The same comparables as for Daev Plaza, Pokrovka, Mokhovaya (see above) are relevent for this property

Projected Returns

The projected returns take account of these comparables. The anticipated exit capitalisatin rates take into account the location, but also that the development would be a renovation which will not be such an attractive investmet as a newly built, purpose designed office.

Base Rent Summary					
Year	Zone 1	Zone 2	Parking		Cap. Rate
	Renovated Class B+ Offices	New exchange space	Surface	Undergrd	
2005	525		1200	2400	14.0%
2006	525		1200	2400	13.0%
2007	525		1200	2400	12.0%
2008	525		1200	2400	11.0%
2009	525		1200	2400	10.0%
2010	525		1200	2400	9.5%
2011	525		1200	2400	9.0%
2012	525		1200	2400	8.5%
2013	525		1200	2400	8.0%
2014	525		1200	2400	8.0%

Therefore the rents are projected approximately $100 below the class A rates for offices in the same type of very central location. The exit capitalisation rates have been primarily driven by the excellent location but still represent a level approximately 3-3.5% above the current prime level – this takes account of the proposed development in this report of a removation of the existing space and therefore the general lack of parking and the limitations imposed on the potential quality.

Lease Up and Vacancy Rate

The project included in this analysis would provide a comparatively small amount of office space for such a central location. Therefore it is expected to be entirely pre-leased and the long-term vacancy rate has been assessed at 5%. This is slighlty above the current market average rate for the Central Business District and this takes account of the type of development which would not be a new build office centre, and the limited parking may affect the emarketability.

Discount Rate

A discount rate of 25% has been used for this project as with other MGTS properties.

Dnepropetrovskaya st. 25.A

Property Name:	Dnepropetrovskaya st. 25.A
Property Type:	Land plot of 10,380 square metres, for construction of Economy class Residential complex.
Location:	The site is located in the southern part of Moscow, at the address Dnepropetrovskaya st., 25A., Moscow; Russia
Property Rights Appraised (current buildings):	Ownership rights for the land plot are in the process of negotiation, which were anticipated to be completed in November 2005. Currently we have been provided no title documents for the Property. We have been informed that outstanding costs in respect of the legal and permitting issues are US$500,000 and this has been taken into account in the valuation analysis.
Date of Inspection:	October, 13, 2005
Location:	The property is located in the south of Moscow, in Chertanovo District, a short drive from Moscow Ring Road Road. The area is a dormitory suburb. The closest subway station is Chertanovo.
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate of the subject property.
Land area:	10 380 square metres according to information, provided by Sistema-Halls management.
Land use specification:	For residential purposes.
Year of construction:	Expected start of development: 2 – 3 quarter 2006.
Total Gross Area of the Building	There is no final concept for subject property.
Prices for apartments:.	The Company projects the prices for the finished apartments to be $1 800 – $2 200 per square metre, which is average price for new construction of economy-class apartments in Chertanovo district.
Final Value Conclusion:	**US$3,200,000**

Location

The land plot is located in the south of Moscow, at the address Dnepropetrovskaya street, 25.A, in Chertanovo district. The land plot is currently a football field, which belongs to a state school.

The land plot is a short drive from the Moscow Ring Road, but it is separated it from it by Bitcevsky park, which is one of the biggest natural parks in Moscow.

Access to building

There is easy vehicle and pedestrian access to the site from Dnepropetrovskaya street, and easy vehicle access from Chertanovskaya street.

Security

The land plot is fenced

Year of construction/condition

The developer plans to start construction works in the 2nd or 3rd quarter of 2006 and to finish them by 4th quarter 2007

Quality of construction

Main carrying constructions will be made of monolith. No information was provided concerning technical characteristics of the complex

Valuation Commentary

General

The property lies in an established residential suburb to the south of Moscow. It benefits from easy access to the Moscow Orbital Highway (MKAD) and is also close to Varshovskoye Shosse, a major radial artery that leads to the centre of Moscow. The property is not far from the nearest metro station and it is therefore a highly convenient residential location.

The property also lies adjacent to one of the largest open spaces in Moscow – giving potential to make a very desirable residential project. However – development plans are at an early stage and no detailed proposals have been provided by the company at this stage. Therefore the valuation analysis is based on the very broad information we have received.

Costs

Construction costs are based on market standards. Information as regards the costs of permitting and provision of infrastructure are largely based on data provided by the company. In general – residential development is fairly straight forward in Moscow. Costs have been estimated at circa US$10.6 million excluding VAT.

Comparables

There are two residential apartment blocks under construction very close to the subject site. These are considered to be directly comparable. Information on specific transactions is not available – but offered prices are considered to be a reasonable guide as they are rarely discounted:

Name	Rate
New construction, Economy class house, Chertanovskaya st, 48-50	$1 600+
New construction, Dorozhnaya st, 34, Economy class house	$1 620+

Projected Returns

The projected returns are extrapolated from this information. These are for the sales prices for individual residential units on a US$ per square metre basis (in accordance with market standards). With completion two years away allowance has been made for some increase in market prices – expected in this region, together with a higher level of general prices due to the proximity of the subject property to the park, its pleasant environment, and the good access that it enjoys. Therefore average sales prices have been taken for the project, over the time horizon of the project, at **US$2,000 per square metre.**

As the project will provide residential units for direct sale, capitalisation rates are not relevant to the residual valuation.

Discount Rate

An unleveraged discount rate of 25% is assessed as being appropriate. The legal title documents are in the course of negotiation, and there is no specific development proposals for the site. There is an existing high level of risk, but the title issues are expected to be resolved by the end of 2005. This would significantly reduce the risk profile of the site.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Michurinsky Prospekt, 39

Property Name:	Michurinsky Prospekt, 39.
Property Type:	Land plot of approximately 15,000 square metres, for construction of a Business class Residential complex.
Location:	The site is located in the south-western part of Moscow, at the address Michurinsky Prospekt, 39, Moscow, Russia
Property Rights Appraised (current buildings):	Ownership rights for the land plot are in the process of negotiation, which were expected to be completed in November 2005. Currently the Company has not provided us with any title documents for the subject property. We have been informed that the outstanding costs in repsect of the legal and permitting issues are US$6,625,000 and these have been taken into account in the valuation analysis.
Date of Inspection:	October, 13, 2005
Location:	The property is located in south-west of Moscow, in Ramenki District. It is a short drive from Moscow State University, in a rapidly developing residential zone. The closest metro stations are Universitet and Prospekt Vernadskogo.
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate in the subject property.
Land area:	Approximately 1.45 hectares according to information, provided by Sistema-Hals management.
Land use specification:	For residential purposes.
Year of construction:	Expected beginning of construction works: 2 – 3 quarter 2006.
Total Gross Area of the Building	There is no final concept for the subject property.
Prices for apartments:.	The company has projected sales prices for the completed apartments of US$2,000 – $2,5000 per square metre.
Final Value Conclusion:	**US$6,000,000**

Location

The land plot is located in South-Western part of Moscow, at the address Michurinsky Prospekt, 39. The land plot is currently used for the storage of containers and unusable machines.

The land plot is a short drive from Moscow State University, the closest metro stations are Universitet and Prospekt Vernadskogo.

Ramenki is a fast developing business-class residential district. In the immediate surroundings there are several business-class residential complexes: Shuvalovsky ($2 200 per square metre), Bely Lebed' (located closer to Vorob'evi Hills, $3 000 per square metres).

Access to building

There is easy vehicle and pedestrian access to the site from Michurinsky Prospekt.

Security

The land plot is fenced and guarded

Year of construction/condition

Developer plans to start construction works in the 2nd or 3rd quarter of 2006 and to complete by the 4th quarter of 2007

Quality of construction

Main carrying constructions will be made of monolith. The complex will have all the features of a business-class residential complex such as: cold and hot water, electricity, underground parking, video surveillance of the site, telecommunications and other.

Valuation Commentary

General

The property lies in rapidly developing residential suburb of Moscow which is highly sought after. The district is very attractive, with a large number of open green areas. There is a large amount of recently completed or under construction residential development – which has performed well, due to the nice environment coupled with relatively easy access to the city centre, the third ring road and MKAD (the Moscow Orbital Highway).

Residential development remains fairly straight forward in Moscow and the continuing comparative shortage of supply of good quality modern residential development compared with demand results in good returns. This situation is expected to continue in the short to medium term. A large increase in supply is expected in the medium term, that may upset the supply / demand equilibrium, but this effect may well be offset by a wider availability of domestic mortgages which will bring property ownership within the reach of a wider audience.

Costs

Construction costs are based on market standards. Information as regards the costs of permitting and provision of infrastructure are largely based on data provided by the company. In general – residential development is fairly straight forward in Moscow. Costs have been estimated at circa US$27.6 million excluding VAT.

Comparables

Offered Prices for the properties considered to be most comparable in the area of the subject property are as follows:

Name	Rate
New construction, High class residential complex, Michurinsky Prospekt, 6 "Bely Lebed"	$3,200+
New construction, Business class residential complex "Shuvalovsky", Lomonosovsky Prospekt 27	$2,900 – 4,500
New construction, Business class residential complex, Pir'eva 5	$2,200+

Again – these are considered to be a reasonable guide to prices achieved.

Projected Returns

The projected returns are extrapolated from this information. These are for the sales prices for individual residential units on a US$ per square metre basis (in accordance with market standards). Completion is expected to be two years away. In this region there is a large amount of ongoing residential development that may affect prices that can be achieved – however the region is likely to remain an attractive one for residential purchasers.

Therefore the average sales price for the completed residential units has been assessed at **US$2,100 per square metre.** This also reflects that the proposed development is a comparatively large one.

As the project will provide residential units for direct sale, capitalisation rates are not relevant to the residual valuation.

Discount Rate

An unleveraged discount rate of 25% is assessed as being appropriate. The legal title documents are in the course of negotiation, and there is no specific development proposals for the site. There is an existing high level of risk, but the title issues are expected to be resolved in the not too distant future. This would significantly reduce the risk profile of the site.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Nakhimovsky Prospekt, 4

Property Name:	Nakhimovsky Prospekt, 4
Property Type:	Land plot of 18,500 square metres, for construction of Business-class Residential complex.
Location:	The site is located in the southern part of Moscow, at the address Krivorozhsky proezd, 4. The site is bordered by Krivorozhsky proezd and Simferopolsky proezd., Moscow, Russia
Property Rights Appraised (current buildings):	Ownership rights for the land plot are in the process of negotiation, which were anticipated to be completed in November 2005. Currently the Company has not provided us with any title documents for the Property. We have been informend that the outstanding costs in respect of the legal and permitting issues are US$1,500,000. This has been taken into account in the valuation analysis.
Date of Inspection:	October, 13, 2005
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate in the subject property.
Land area:	18,500 square metres according to information, provided by Sistema-Hals management.
Land use specification:	For residential purposes.
Year of construction:	Expected beginning of construction works: 2 – 3 quarter 2006.
Total Gross Area of the Building	There is no final concept for the subject property.
Prices for apartments:.	As expected, the prices will be within the range of $2,000 – $2,500 per square metre, which is the average price for new construction business-class complexes in the Nakhimovsky Prospekt district.
Final Value Conclusion:	**US$7,785,000**

Location

The land plot is located in the south of Moscow, at the address Krivorozhsky Proezd, 4, close to Nakhimovsky Prospekt metro station. The land plot is currently a football field, which belongs to a state boarding school.

The land plot is located close to Nagornaya mountain ski slope.

Access to the Property

There is easy vehicle and pedestrian access to the site from Krivorozhsky Proezd and Simferopolsky Proezd, and easy vehicle access from Nakhimovsky Prospect

Security

The land plot is fenced

Year of construction/condition

Developer plans to start construction works in the 2nd or 3rd quarter 2006 and to complete them by the 4th quarter 2007.

Quality of construction

Main carrying constructions will be made of monolith. No information was provided concerning technical characteristics of the complex.

Valuation Commentary

General

The property is located in an established residential area close to Nakhimovsky metro station and the major radial route of Varshavskoye Shosse. Kashirskoye Shosse, which links the centre of the city with Domodedovo airport, is also close by. There is therefore excellent access to the property by both car and public transport. There is a small park nearby and in general this is an attractive residential area.

According to information supplied to us the intended density of development is low. This will simplify the development process, minimise costs, and will also result in a more attractive and marketable product.

As with the other residential developments described above – this property offers a straight-forward project which will be attractive to investors and / or developers. This is due to the relative ease of design and construction and of the currently very high level of demand for the completed residential units as evidenced by the continued growth in residential sales prices.

The title position with this property is also not yet finalised, with negotiations for resolving ownership / leasehold rights still underway. The Company have informed us that all of the outstanding issues should be settled by the end of 2005.

Costs

Construction costs are based on market standards. Information as regards the costs of permitting and provision of infrastructure are largely based data provided by the company. In general – residential development is fairly straight forward in Moscow. Costs have been estimated at circa US$19.4 million excluding VAT.

Comparables

The comparables detailed above for Dnepropetrovskaya prospect also apply to this property.

Projected Returns

The projected returns are for the sales prices for individual residential units on a US$ per square metre basis (in accordance with market standards). Completion is expected to be two years away. Sales prices are based on offers that are currently available in the market. Future growth in sales prices is difficult to predict and therefore the returns have been based on the current market levels.

Therefore the average sales price for the completed residential units has been assessed at **US$2,350 per square metre.** The slightly higher level reflects the low level of density which will result in a more attractive and more marketable product.

As the project will provide residential units for direct sale, capitalisation rates are not relevant to the residual valuation.

Discount Rate

An unleveraged discount rate of 25% is assessed as being appropriate. The legal title documents are in the course of negotiation, and there is no specific development proposals for the site. There is an existing high level of risk, but the title issues are expected to be resolved in the not too distant future. This would significantly reduce the risk profile of the site. This approach is consistent with that taken for other residential projects which have a similar title position and potential development period.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

NIIDAR - Scientific and Research Complex of Distant Radio Connections

Property Name:	NIIDAR
Property Type:	Multifunctional Office, Retail, and Residential complex
Location:	The subject property is situated at 1st. Bulhvostova street. 12/11 Moscow, Russia
Property Rights Appraised:	The building improvements are owned by OAO NIIDAR- according to the State Registration certificates. The site's cadastral number is 770303025009, is owned by OAO NIIDAR on long term rent conditions, the contract #M-03-03025-009 expires on 30.07.2012. In accordance with the latest information provided to us there are no direct costs outstanding in respect of the acquisition of the legal rights to the site, although there will be an obligation to provide infrastructure works in the area of the site. The Company's estimate as regards these costs has been used in the valuation analysis
Date of Inspection:	September 07, 2005
Location:	The land plot is located in Eastern part of Other Trading Area, Preobrazhenskaya Square district. .
Purpose and Function of Appraisal:	The purpose of the appraisal is to estimate the Market Value of the above property.
Land area:	15.1 Hectares.
Land use specification:	For the exploitation of administrative buildings, science and research buildings and objects that belong to the Scientific and Research Complex of Distant Radio Connections
Year of construction:	Beginning: 4 quarter of 2006 Ending: 3 quarter of 2011
Total Gross Area of the Complex (according to the concept):	642,000 of square metres according to the concept provided by SistemaHals
Residential area	211,000 square metres according to the concept provided by SistemaHals
Office Towers:	120,000 square metres according to the concept provided by SistemaHals

Office Business Park	140,000 square metres according to the concept provided by the Company
Retal & Entertainment	92,000 square metres – again in accrodacne with the conept provided
	All of these areas are gross construction areas.
Underground parking:	1,639 spaces for apartments, 3,466 spaces for offices and 2,400 spaces for the retail and entertainment area.
Final Value Conclusion:	**US$33,700,000**

DESCRIPTION OF EVALUATED REAL ESTATE

Location

The land plot is located in the Eastern part of Other Trading Area, near Preobrazhenskaya Square subway station.

The land plot is located in the frames of 1st Bukhvostova street, Krasnobogatirskaya street , Preobrazhenskaya Sqare and 3rd Bukhvostova street.

The District around Preobrazhenskaya Square is considered to be a Residential district. Few office buildings and one hotel complex (Izmailovskaya) are located in this district.

Access to site

There is easy vehicle and pedestrian access to the site from "Preobrazhenskaya Square", easy vehicle and pedestrian access from "1st Bukhvostova" and "Krasnobogatyrskaya" streets.

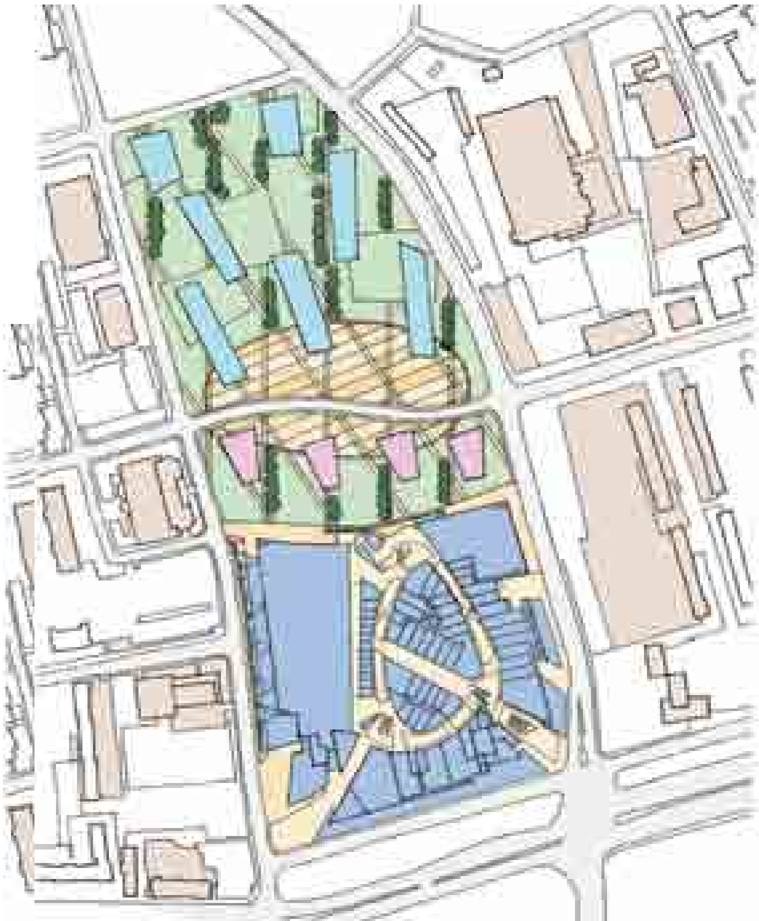
CUSHMAN & WAKEFIELD STILES & RIABOKOBYLKO

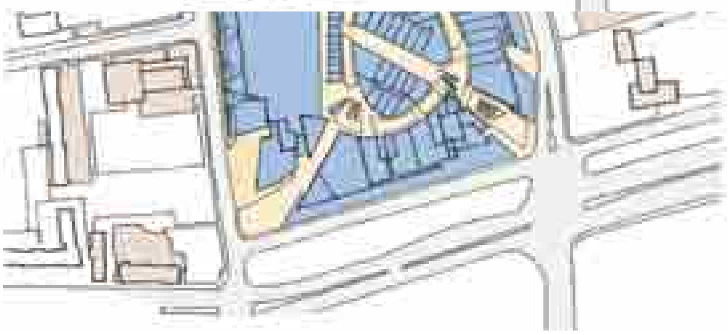
Security

Currently, the complex is fenced and guarded.

Year of construction/ condition

Most of the subject property consists of low-cost construction buildings, which were built in the 1930-1960s. Their current condition can be described as poor to average. Most of the buildings need to be repaired, while several production buildings are in a poor condition and require more significant capital repair





General area	Total area of the land plot is 15.1 Hectares. According to the concept total area of the complex will be 784,340 square metres including: 1. Residential area – 211,000 square metres. 2. Two Office Towers – 120,000 square metres 3. Office Busines Park – 140,000 square metres 4. Retail and Entertainment – 92,000 sqaure metres 5. Parking above and below ground – 221,340 square metres In addition there will be a new building provided for the NIIDAR institute itself amounting to a total of 50,000 square meteres in a eight storey above gorund building.
Financial indicators:	In accordance with the project details provided by the Company. These parametres have not necessarily been used in the valuation analysis. Planned investment value of the project amounts to $1 051 000 000 including credit payments, and executive expenses of Sistema Hals – 5% External financing of the project comprise $309 000 000. Returns from apartments on the stage of construction are expected to amount to $47 400 000 External finance conditions – 13% annual rate. Expected revenue from the project when completed is $1 502 000 000.
Fire alarm system	The complex will be equipped with all modern fire alarm and fire suspension systems.
Heating system	Hot and cold water and electricity connections from several substations, gas pipe.
Facilities for rent	"B" class office spaces and hi-class retail premises.

Valuation Commentary

General	The property is a former Soviet research and development institute and it is located in a predominantly industrial area to the north east of the city centre. Around this industrial area there are low class residential areas. The property lies immediately adjacent to a metro station and lies approximately equidistant between the existing third ring road and the planned fourth ring road. In accordance with current proposals – an access spur to the planned fourth ring will run adjacent to

the site – but the final route is not entirely clear. Should this road be constructed then vehicular access to the site will be significantly enhanced.

The property is currently principally used for light industrial purposes and is occupied by a number of tenants. The company has informed us that all of these tenancies are short term (less than 12 months) and that there are no tenants with security of tenure. Part of the premises are occupied by office tenants and a small part of the property is used as a small shopping centre. The research institute also remains in occupation of some of the buildings.

The property extends to in excess of 15 hectares, and therefore provides a significant redevelopment opportunity. However – the area is not well established for commercial purposes and residential sales prices in the area are not especially high. Therefore, any project will have to be well planned and thought out in order to be successful – particularly as regards phasing, as any development will require a significant level of investment.

The Company has developed a project for the development of a gross area of 784,300 square metres of space, including 211,000 square metres of residential with accompanying underground space, 260,000 square metres of office space together with 02,980 square metres of parking (both surface and underground) and 92,0000 gross retail and entertainement area together with 71,000 of underground and surface parking. For both offices and thtail the parking will be predominantly underground..

In the analysis presented in the accompanying financial pack the phasing has been carefully considered and scenario testing has been executed in order to establish the most efficient phasing, within the parameters of physical feasibility. This has resulted in five phases. Firstly the residential to generate profits from apartment sales, followed by by the first phase of offices and retail to start generating income at an earlier stage followed by a further two pahses of residential to meet projected market demand and finally the business park. This could well be as build-to-suit nd accelerated if there is specific identified demand.

Currently the scale of development anticipated by the company does not have the necessary consents, and there remains title issues to resolve in respect of part of the land although it has been indicated that a development of up to 800,000 aquare metres will be permissible, subject to the company providing specific infrastructure upgrades in the areas surrounding the site. The costs associated with both of these issues have been taken into account in the valuation analysis.

Costs

The costs included in the analysis for this project include all outstanding acquisition costs and costs payable to the city government. Although a detailed breakdown of these costs has not been provided it is understood that the additional infrastructure costs will amount to approximately US$40 million. In addition construction costs have been included based on market standards as elsewhere in the report.

Therefore, due to the scale of the project, and the soft costs that are required, it is estimated that the total project costs will be circa US$900 million. The feasibility of any development of this site will hinge not only on the mix of uses but also on the control of costs.

Comparables

Commercial development is this area is so far rather limited and due to the nature of the area there is no new residential development. Sales of residential space are only in existing soviet era apartment blocks. Therefore the following comparables have been found for office and retail space:

Office	
Preobrazenskaya Square	
Class B	
Name	**Rate**
Allience Business Centre	$295
Allience Business Centre phase II	$292
Business Centre on Ibragimova	Current Offers $300, average $294
Electrozavodskaya 27	$377
Novie Cheremushki	
Class B	
Cherry Tower	$396
Gold Tower at Krzhizhanovskogo 16, bld 2	$360
Sokol	
Class A	
Mersedes-Benz Plaza	$625
Viktorenko	$450
Class B	
Aeroport Business Centre	$383
Leningradsky Prospekt 47 bld 3	$394
Leningradsky Prospekt 47 bld 2	$439
Digalta Sokol Business Centre	$426
Sokol Place	Current offers $420,
Sokol Plaza	$420
Sokol Business Centre I	Current offers $340, Deals history $216 ave.
Sokol Business Centre II	Current offers $400, Deals history $370 ave.
Kulon building	Deals History $347 ave.
Ericsson HQ	Current offers $435, Deals history $450 ave.

Retail	
Name	**Rate**
Podsolnukhi	Current offers $600 for 144 sq.m; $700 for 40 sq.m
Galereya Aeroport	$1500 per 1 sq.m for 220 sq.m premise; $1700 per 1 sq.m for 200 sq.m premise

Projected Returns

The projected returns are therefore for the commercial space and for the sales prices for individual residential units on a US$ per square metre basis (in accordance with market standards).

The returns have been based on the information above and adjusted to take account of the individuality of the proposed development. In addition, the sheer scale of the proposed development may slow the marketing process and the project itself has enough size to skew the supply and demand equation in this particular sub-market. All of these factors have been taken into account.

Due to the size of the development and the certain degree of uncertainty as regards the overall level of demand in this area going forward, a certain degree of caution has been exercised in assessing the rents for the commercial space, all of which are some way below current comparables as outlined above.

Therefore the projected returns have been assessed as follows:

Base Returns						
Year	Zone 2	Zone 3	Zone 4	Surface Paring	Underground Parking	Cap. Rate
	Retail and Entertainment	Office Towers	Business Park			
2006	550	375	375	1200	2400	14.0%
2007	550	375	375	1200	2400	13.5%
2008	550	375	375	1200	2400	13.0%
2009	550	375	375	1200	2400	12.5%
2010	550	375	375	1200	2400	12.0%
2011	550	375	375	1200	2400	11.5%
2012	550	375	375	1200	2400	11.0%
2013	550	375	375	1200	2400	10.5%
2014	550	375	375	1200	2400	10.0%
2015	550	375	375	1200	2400	10.0%
2016	550	375	375	1200	2400	10.0%

Sales Prices		
Residential	Associated Surface Parking	Associated Underground Parking
$/sqm	$/space	$/space
2500	0	25000

As the area is not established for commercial uses, and there has been essentially no new residential development, there is no history or trends available for how prices change. Therefore little variation in the returns has been built into the analysis.

The exit capitalisation rates are for the commercial areas and are on the assumption that the project is completed to a standard in line with the intended class of the space, and is fully leased – except for a standard vacancy rate. These capitalisation rates take account of the location of the project, that it is intended to be mixed use, and that the offices are anticipated to be Class B+ / A-.

Vacancy Rate and Lease Up

The long term vacancy rate has been assessed at 7.5% for all of the commercial space. This is someway above current market averages, but also takes account of the location of the Property and the amount of space that it is intended to be deliverered. As the rental rates used are very conservative and highly competitive it is anticipated that full occupancy would be reached within the first year of occupation (e.g. see the experience of Krylatsky Hills, which was fully pre-leased and for which rents increased by over 20% from the initial marketing rates due to the level of demand). The dynamic between the renal rates, exit capitalisation rates, which are more than 3% above current prime levels, the long-term vacancy rate and the lease up projections is believed to be entirely reasonable and to give an accurate overall assessment of value.

Discount Rate

An unleveraged discount rate of 25% is assessed as being appropriate. All of the outstanding soft costs and the solving of title and permitting issues has been taken into account in the analysis. The risk therefore lies in the size of the development, its location and the potential for stimulating demand in this area, the length of time the development will take to complete and the level of investment required.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Office-Hotel complex Beijing

Property Name:	Office-Hotel complex Beijing
Property Type:	4* hotel, class A office complex, retail and entertainment centre
Location:	The site is located within the borders of: Bolshaya Sadovaya st., 5, bld. 1-2; 2nd. Brestskiaya st., 1, bld. 1 Gasheka st., 12, bld. 1, 2, 6, 7 Moscow, Russia
Property Rights Appraised:	Valuation was conducted for the established property rights on the Building and for the perpetual use rights of the land. Ownership for the buildings located in Bolshaya Sadovaya st., 5, bld 1-2 was registered in the Moscow Property Committee with identification No. 018309 on 18 august 2000 according to the Moscow State Registration Certificate. The building is owed by OJSC GOK "Pekin". Ownership for the building located in 2nd. Brestskaya st., 1, bld 1; and Gasheka st., 12, bld 1,2,6,7 was registered in Moscow Property Committee with identification No. 77-AA 890293 on 15 November 2002; and with identification No. 77-AA 164748 on 05 June 2002 accordingly. The rights for 5 year lease for this land plot (with cadastral number 770104012037): Agreement with Moscow Land Committee #M-01-505548 The hotel part of the project has been excluded from the valuation – in accordance with our instructions. We have been informed that the total outstainding costs in repsect of legal and permitting issues, and for paying for the government share and third aprty costs, amounts to US$24,147,000. These costs have been taken into acount in the valuation.
Date of Inspection:	September 07, 2005

Location:	The property is located in the Central Administrative District of Moscow, Tverskoy region.
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate of the subject property.
Land area:	17,300 sq.m.
Land use specification:	Hotel and Office complex
Year of construction:	Beginning: 4 quarter of 2005 Ending: 4 quarter of 2007 (In accordance with information supplied)
Total Gross Area of the Building:	109,072 square metres gross according to the Business plan provided by SistemaHals
Hotel area:	22,000 square metres according to the Business plan provided by SistemaHals. It is understood that the hotel area is in seperate ownership and that there are no further obligations for the Comapny to provide payments in respect of the hotel renovation, over and above the costs outlined above. The hotel has not therefore been included in the analysis or valuation.
Retail area:	13,907 square metres according to the Business plan provided by SistemaHals
Office area:	40,520 square metres according to the Business plan provided by SistemaHals
Public area;	2,280 square metres according to the Business plan provided by SistemaHals
Underground parking:	23,536 square metres according to the Business plan: 648 spaces
Number of stories:	From 7 to 10 stories
Parking space:	Three level underground parking for 648 spaces.
Final Value Conclusion:	**US$60,600,000**

Location

The building is located in the Central Business District of Moscow, at the address Bolshaya Sadovaya st., 5. The nearest underground stations are: "Mayakovskaya" and "Belorusskaya". The building is located close to main highways of Moscow: "Tverskaya street" "Sadovoe" and "Boulvarnoe" Koltso.

"Tverskaya" street is the most prestigious central street of Moscow. The real estate in this area is amongst the most expensive in Moscow. Along "Tverskaya" and nearby areas retail and office complexes continued to be developed, as the rental rates in this location have historically been amongst the highest in Moscow.

Nearby hotels include the oriental Carpet Hotel, Tverskaya, National, Mariott, Metropol and a number of others.

Access to building

There is easy vehicle and pedestrian access to the building from "Tverskaya" street, "2nd Brestskaya street" and "Sadovoe Koltso".

Security

Video surveillance

Year of construction/condition

The building is an architectural monument of the Soviet period, which was built in 1946.

It is a seven to ten storied building, the current gross area of which is 22,000 square metres which will be reconstructed and modernized.

The building will be equipped with independent infrastructure, conference hall, information centre, restaurant, cafeteria, lobby, canteen for staff and other facilities of a 4* hotel.

The complex will also be equipped with three stories of underground parking.

The current condition of the building hardly meets the international requirements of a 3* hotel. The internal decoration requires complete replacement. There is no central air conditioning system althoug some rooms and facilities are equipped with split systems.

Quality of construction

The building was constructed in Soviet period and has a corresponding exterior and interior.

Main construction elements of the building are brick. The building requires complete renewal to meet requirements of a 4* hotel.

Expensive finishing materials were used during construction, but they all are worn out and the decoration also requires complete replacement.

According to the concept the hotel will be refurbished to meet the requirements of a 4* hotel. The Office part will consist of 47,000 square metres of office Class A premises. The complex will also have 13,000 square metres of high quality retail premises and a 23,000 square metres of underground levels (retail zones and underground parking). These are all gross areas, and in the analysis below have been adjusted using standard loss factors in order to assess the rentable areas for each different use.

General area

Total area of the building is 22,000 sq.m.

According to the concept, it will remain the same after reconstruction. Five office buildings will be constructed instead of the soviet 5 storied buildings and will form one hotel-retail and office complex of a total area of 109,072 square metres.

Explication by floors

Currently the building consists of three facades: one facing Sadovoe Koltso, one facing 2nd Brestskaya street and one facing Mayakovskaya square. Hotel Pekin is placed in the middle part of the building and the wing that faces Sadovoe Koltso. The wing that faces 2nd Brestskaya street is occupied by the department hotel of FSB.

The central building has ten stories. The first floor is the reception, and casino that occupies also the first floor of the departmental hotel of FSB. The second floor is a beauty saloon , small restaurant of European food and rooms for guests. Floors from 3rd to 9th are mostly rooms for guests, and utility premises.

There are some class C office premises available for rent placed between 3rd and 9th floors in former guest rooms.

Technical Characteristics of the building

Alarm system: Fire alarm system

Heating system: Hot water

Facilities for rent: Currently the total area of hotel is 22,000 square metres, providing 107 guest rooms. There are also some office premises available for rent.

Current rental rates:

As we were informed, the daily room rates (without discounts) are:

- Single room – 2 500 – 2 600 RUR ; 2 500 – 2 800 RUR
- Higher Class single room – 3 000 RUR
- Deluxe room – 3 500 – 4 000 RUR (single) 4 800 RUR (double)
- Luxury room – 5 000 – 5 500 RUR (double)
- Junior Suite/Siute – 6 500 – 8 000 RUR

Prices are including VAT.

Valuation Commentary

General

An existing soviet era hotel in a prime and highly visible location immediately adjoining the garden ring, and hence the Central Business District on the North West side of the city. Locations such as this are much sought after. The existing building is a well-known landmark in its own right, is part of the interesting architectural ensemble on Triumfalnaya Square, and due to its proximity to the city centre, the garden ring and to Tverskaya and 1st Brestskaya Streets it has excellent vehicular access to both major radial and circular routes. The metro station is also very close by. The location is excellent for commercial purposes.

The hotel continues to be in operation, together with some rooms used for office purposes. One wing of the hotel is occupied by the Federal Security Bureau as a private hotel. Other supporting leisure uses are also incorporated into the complex. The hotel part is understood to be in third party ownership and has been specifcally excluded from this valuation. However the existence of the hotel, and the proposed renovation will affect the marketability of the remainder of the project and hence why a description is included in the report.

The project planned for the site would retain the existing hotel, which would continue to be operated and owned by a third party, but the developer is obliged to carry out a refurbishment of the hotel rooms and to be responsible for relocating existing tenants. The costs for this are included in the total costs outlined above, according to the information supplied to us, and have therefore been fully taken into account in the valuation.

In addition to the refurbishment of the existing hotel, the Company's plans include new construction including retail space office space, together with underground space for retail, entertainment and parking purposes, providing in excess of 600 parking spaces. This amount of parking would be sufficient for the proposed development. The breakdown of areas is outlined above and the mix of uses is suitable for the site, the only concern being the potential for there to be a lack of visibility of the retail space. There is a large amount of competitive retail space (either existing or planned) in close vicinity to this site so any retail space will need to be carefully planned.

The office space will be excellently located and a well designed and constructed office building is assured of success in this location.

The whole planned project will provide a good mix of uses in an excellent location, should make good use of the existing prominent architectural features and leverage off the visibility of the site. This site would be highly sought after by developers / investors and would therefore be highly marketable, assuming that there are no latent title or permitting issues.

The project concept and plans remain at an early stage and there is therefore no more detailed information than that presented here currently available. It has therefore been necessary to make a number of assumptions in arriving at the valuation.

The valuation assumes a 100% share of the ownership rights (either of the building or of the land lease) and no deductions have been made for any part ownership or any unresolved title issues. However – the hotel in its entirety has been excluded from the valuation.

Costs

The costs included in the analysis have been assessed based on the information supplied by the Company. Design and permitting costs are in line with the Company's estimates. The hard costs include the cost of refurbishing the hotel to four star standard, which will include reconfiguration of internal layout as well as updating of FF&E and redecoration together with the construction costs for the retail and office areas.

The site is large enough that the retention of the existing hotel building should not hinder the new construction, and as the rooms are to be refurbished and the hotel closed – this will also ease the construction process. Total costs include all of the permitting and third party costs identified to us.

Comparables

This is a well developed commercial area and therefore a good level of comparable data is available – most especially for the office component. Therefore only the most relevant information has been included so as to retain focus:

Office	
Name	**Rates**
Class A	
Capital group on brestskaya	$813 ave.
Ducat place III	$723 ave.
Megapolis	$620 ave.
Chaika plaza	$660 ave.
Actor Gallery	$500 ave. 2003
Class B	
Oruzhejny 15	$600 ave.
ST Investments Building	$700 ave.

Hotel	
Name	**Rates**
Tverskaya Mariott	$550, Junior suite, per night; $650 Corner Junior Suite, per night
Sheraton Palace	$450 ave, per room, per night

Retail	
Name	**Rates**
Tverskaya Zastava	$1 000 ave
Gallery Actor	$2 024 existing offer, September 2005
Novinsky Passage	$885 ave

Projected Returns

The returns used in the analysis are therefore based on this information, but taking into account that this is a superior location for office uses, but there are potential difficulties for the retail space, due to the lack of visibility.

Year	Zone 2	Zone 3		
	Retail Area	Office Area	Underground parking	Capitalization rate
2005	975	575	3000	13.0%
2006	950	550	3000	12.0%
2007	950	550	3000	11.0%
2008	975	540	3000	10.0%
2009	1000	530	3000	9.5%
2010	1000	525	3000	9.0%
2011	1000	530	3000	8.5%
2012	1000	540	3000	8.0%
2013	1000	550	3000	8.0%
2014	1000	550	3000	8.0%

The exit capitalisation rates are for the project as a whole, assuming it is completed, income is stabilised and that it would be sold as one lot. These capitalisation rates take account of the superior location of the project and the very high current and projected demand for investment properties in this area, and the restricted pipeline of new investment grade projects in the City centre. Nevertheless – due to the mixed use nature of the site and the potential visibility difficulties with the retail, the exit capitalisation rates have been assessed at approximately 2-2.5% above current prime yields.

The finished development will be highly attractive to investment purchasers and hence highly marketable.

Vacany rate and Lease Up

The levels of commercial space are not especially large for this location, and the finalised product will prove exceptionally marketable. Bearing in mind the rental rates and the long term vacacny rate, together with the interaction with the exit capitalisation rate, it is expected that the Propoerty will achieve full occupancy in the first year of operation. This, for example, was achieved with Ducat III.

The long term vacancy rate has been assessed as 5%. This is above the current market average rates for both offices and retail, but taking into account the lease up schedule and the projected rental rates this is considered to be entirely achievable.

Discount Rate

An unleveraged discount rate of 27.5% is assessed as being appropriate. Refurbishment of the hotel is potentially difficult and its status is unclear. In addition having the FSB as an occupier of part of the existing premises is likely to put off a number of potential purchasers. There are various other occupation issues that need sorting out, and the property is yet to gain all of the necessary permits for the development that has been analysed herein, and hence the relatively high level of discount rate.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Land Plot - Leninsky prosp, bld. 90/2; Kravchenko str, bld. 90/2; Udaltsova str., bld. 4

Property Name:	Former Sport Hotel, Leninsky Prospect, Moscow
Property Type:	Land Plot for the construction of a Hotel-Retail-Business centre extending to a total of 3.8 ha included in two separate titles of 2.5ha and 1.3ha respectively.
Location:	The site is located within the boundaries of: "Leninsky Prospekt" bld. 90/2; Kravchenko st., bld. 90/2 Udaltsova st., bld. 4, Moscow, Russia
Property Rights Appraised:	Valuation was conducted for the long term lease rights of the land. The rights for 10 year lease for this land plot (with cadastral number 770713007055): Agreement with Moscow Land Committee #M-07-023063 signed on February, 13th, 2003 including consent to develop a gross above ground area of 195,000 square metres. The rights for 4 years and 11 months lease for land plots (with cadastral numbers 770713007056; 770713007145): Agreement with Moscow Land Committee #11-07-506068 signed at February, 13th, 2003. We have been informed that the outstanding costs in respect of title and permitting issues is US$50,183,000. These costs have been fully taken into account in the valuation analysis
Date of Inspection:	September 07, 2005
Location:	The land plot is located in South Western part of Moscow within the Yugo-Zapadny region. This is defined by *Cushman & Wakefield Stiles & Riabokobylko* as the Other Trade Areas submarket.
Purpose and Function of Appraisal:	The purpose of the appraisal is the Market Value of the fee simple estate in the subject property.

Land area:	23,480 sq.m.
Land use specification:	The site has consent for the development of a Hotel, Retail and Office complex
Year of construction:	Company's Anticipated Beginning: 4 quarter of 2005 Company's Anticipated Ending: 4 quarter of 2008 For the purposes of this valuation the construction period has been taken as that which a third party purchaser would reasonably anticipate as being achievable. Particular regard has been given to the fact that the development currently anticipated by the company, and analysed for the basis of valuation, is beyond the scope of the existing consent. Therefore the development dates have been taken as follows: Commencement: 2Q 2006 Completion: 4Q 2008
Total Gross Area of the Building (according to the concept of the company):	390,000 of square metres according to the concept provided by Sistema Hals
Hotel area:	40,000 square metres of apart-hotel according to the concept provided by Sistema Hals, of which 30,000 square metres is considered to be the useable area.
Office area:	162,000 square metres according to the concept provided by Sistema Hals and using a standard adjustment to obtain Net Rentable Area
Retail area:	27,000 square metres according to the concept provided by Sistema Hals and using a standard adjustment to obtain Net Rentable Area
Residential Area:	12,500 square metres – with an effective area of 9,375 square metres according to the company's concept.
Underground parking:	90,000 square metres according to the concept provided by Sistema Hals: 2,570 spaces
Number of stories (according to the concept):	Stylobate – 9 stories Tower A (Hotel) – 36-40-46 stories Tower B (office block) – 48 stories Underground parking – 6 levels

Parking space:	Six level underground parking for 3,100 slots
Final Value Conclusion:	**US$123,300,000**
Location	The land plot is located in South Western part of Other Trading Area, to the address Leninsky Prospect, demesne 90/2. The nearest underground station is: "Prospekt Vernadskogo". The building is located close to two important highways: "Leninsky Prospekt" and "Prospekt Vernadskogo". "Leninsky Prospekt" is an attractive direction for a Hotel-Retail complex in terms of accessibility to the centre of Moscow and other important throughways of the city. Several 3* and 4* hotels can be found along "Leninnsky Prospekt" such as "Hotel CDT (Centralny Dom Turistov)", Hotel Sputnik and "President Hotel". "Prospekt Vernadskogo" can be considered as reserve route in case of traffic difficulties on "Leninsky Prospekt". The land plot is also surrounded by a certain number of retail properties, either small or mid-size street frontage stores, or large trade complexes such as "Kaluzhsky Trade Center" located near Kaluzhskaya metro station.
Access to site	There is easy vehicle and pedestrian access to the site from "Leninsky Prospekt", and easy vehicle access from "Prospekt Vernadskogo" and "Profsoyuznaya" street.
Security	Currently, the land plot is fenced and guarded.
Year of construction/condition	Previously this land plot was occupied by the Soviet Hotel Sport, which was demolished on 24 September 2004. Currently this land plot is occupied only by a vault, which previously belonged to Ministry for Civil Defence, Emergencies and Disaster Response, but was discharged from their books and will be demolished soon.
General area	Total area of the land plot is 23,480 of sq.m. According to the concept the totalgross area of the complex will be 480,000 of square metres including: Ground part – 300,000 square metres. Including Hotel area – 40,000 square metres Retail area – 45,000 square metres Office area – 202,500 square metres

Residential area – 12,500 square metres

Underground – 90,000 square metres – parking for 2,570 cars

Financial indicators:

According to the Developers' plans the investment value of the project amounts to $606,623,000 including 13% interest payments. Excluding executive expenses of SistemaHals – 2.5%

Planned volume of investments amounts to $510 497 000 (including 13% of credit payments).

Expected revenue from the project when completed is $1 074 375 000.

However – these are the expected numbers of the Company and are not necessarilly the figures that a third party purchaser would expect in assessing the correct price. Different numbers have therefore been used in our analysis below.

Fire alarm system

The building will be equipped with a modern fire alarm and fire suspension systems.

Heating system

Hot and cold water and electricity connections remain from the former hotel Sport, and there is the possibility to connect the site to a gas pipe which lies near "Leninsky Prospekt" not far from the site.

Valuation Commentary

General

The property occupies an excellent location fronting onto one of the major Moscow radial roads: Leninsky Prospect, which leads directly away from the Kremlin to the south-west of the city and toward Vnukovo airport, which is currently being upgraded to international status. The property was formerly occupied by the "Sport Hotel" but has now been cleared. It has excellent visibility and good accessibility.

The area is a growing commercial sub-market with a number of offices developing in the area, but with a restricted amount of modern existing retail development within the immediate vicinity. This, therefore, raises the attractiveness of both office and retail development in this location – as the retail will benefit from the lack of competition and the office will benefit from the emergence of the area for commercial office purposes.

In addition the site has an established use as hotel and this will increase the recognition of the site for these uses. On the basis of this the Company's development plans are well thought out and appropriate for the area. The intended use of the hotel part of the development as an "apart-hotel" or serviced apartments will reduce overall costs and risks, although it is highly likely that a conventional hotel would operate very well in this location.

Costs

For the cashflow analysis the development costs have been assessed broadly using the company's estimates as regards soft costs (design, permitting etc.) and by taking market standard costs for the hard construction element, where this is deemed to be more appropriate, and to reflect the view that a third party purchaser of the site would take. In addtion – all of the identified costs supplied to us to finalise title issues have also been included in the analysis. Therefore the total development costs for the site (excluding VAT) have been assessed as circa US$330 million.

Comparables

The local market has been investigated to provide comparables for the returns that can be expected from the completed development in terms of rents. The information in this area is currently reasonably limited but provides the following average rates for different properties:

Office	
Class A	
Name	**Rates**
Petroleum Plaza	n/a
Class B	
Gaz Field	$520 ave
Udaltsova 1	$500 ave
Vernadsky prospekt, 6-8	$570 ave

Hotel	
Name	**Rates**
CDT	from 1 865 RUR per 1 room, per night, to 4150 RUR per 1 room, per night

Retail	
Name	**Rates**
Kaluzhsky	no info
Panorama	no info
Ramstore City	$1 880, June 2005
Triumfalny	$1300, September 2005

Projected Returns

The projected returns from the project are based on the existing rates available in the market and projected changes as regards these over the course of the development period. These have therefore been assessed as follows:

Base Rent Summary									
Year	Zone 1	Zone 2	Zone 3	Residential		Parking		Cap. Rate	Office
	Apart-Hotel	Retail	Offices	For Sale	For Lease	Surface	Undergrd		Occupancy
2005	450	790	500	2000			2400	14.0%	
2006	450	780	490	2000			2400	13.5%	
2007	450	775	480	2000			2400	13.0%	
2008	450	775	470	2000			2400	12.0%	50%
2009	450	780	470	2000			2400	11.0%	50%
2010	450	790	475	2000			2400	10.5%	90%
2011	450	800	480	2000			2400	10.0%	100%
2012	450	800	490	2000			2400	9.5%	100%
2013	450	800	500	2000			2400	9.0%	100%
2014	450	800	500	2000			2400	9.0%	100%

This assessment has also taken account of the lease up period for the office segment of the project from its completion in 2008 and shows the average rates for the various years after completion. This shows the total occupancy before the long term vacancy rate – which is further deducted after this number. The long term vacancy rate for both the offices and retail together have been assessed at 3%. This is slighlty above the current market averages and is considered to be reasonable, taking into account the conservative lease up achedule. These rates are believed to be entirely sustainable and achievable bearing in mind the existing market rates as outlined above.

The table above also shows the exit capitalisation rate, which takes account of the nature of the proposed development, its location and the expected movement of capitalisation rates over time, as discussed above. As the anticipated disposal of the property takes place before full occupancy is reached in 2009, the capitalisation rate is adjusted upwards to reflect the increased lease up risk, and is applied to the full market rental value of the property. These capitalisation rates are approximately 3-3.5% above the current prime market yields and are therefore highly achievable as a quality product in this location will be a very attractive investment product.

Discount Rate

An unleveraged discount rate of 27.5% has been used for this project. This is assessed as being the market required rate, taking account of the scale and complexity of the project, which increases risk in its own right, and the fact that the property does not currently have all of the necessary permits for the execution of the intended development. This is reflected in the discount rate as well as in the level of permitting costs and the anticipated start date for construction. It also takes into account that all of the cost have now been identified and therefore that the risk is quantifiable.

Discounted Cashflow

This therefore allows the full discounted cashflow analysis to be executed in order to arrive at the residual value of the property as in the accompanying financial package.

Kuntsevo Properties

The Company has a complex plan for the redevelopment of a number of properties in the district of Kuntsevo in the north west of Moscow. Essentially this involves building new residential blocks for the re-housing of residents from old soviet apartment buildings, which will result in vacated buildings that can be demolished and redeveloped as new apartment buildings.

This is a complex scheme that is being undertaken in conjunction with the Moscow City Government, that will allow, over a period of approximately 6 years, the construction of a number of new apartment buildings – having re-housed existing residents. As this area of one of the more attractive residential districts of Moscow this offers the potential to earn significant sales revenues, but over a long period of time and with a high level of investment. However – the project is also likely to earn political capital for the Company as well due to the benefits provided to existing residents of the area. A brief summary of the projects is outlined below, together with an overview of the individual properties. As there is essentially one project covering all of the properties they have been valued together – the development of all of them is linked so it would not be possible to market them as individual projects:

A detailed overview of this project is attached in the financial appendix to this report and details of the individual properties is outlined below. The project involves development of a number of properties over the next, approximately 15 years, in a complicated chain of events as residents have to be rehoused, before those specific properties can be developed. The description of the properties below are therefore limited to those properties that are already in the process of being redeveloped or are being prepared for the same. For those properties where the development is a long time in the future: Ekaterina Budanova st. 16, Yartsevskaya st.13 Building 1, Academika Pavlova st. 54-56, Academika Pavlova st. 40 and Mologoverdeyskaya st.24, building 5 descriptions of the preoprties in their current condition have not been included. An overview of the proposed scale of development is included in the financial appendix.

The overall valuation of the Kuntsevo Properties taken together is **US$15,000,000**

34-38 Academika Pavlova

Summary of Salient Facts and Conclusions

Property Name:	Kunzevo Project
Property Type:	Residential
Location:	The property is located in the West District of Moscow, Kunzevo region: 34-38 Academika Pavlova Moscow, Russia
Property Rights Appraised:	Investment opportunity for the building in accordance with: Moscow City Government Order #30-RP as of 14.01.2003. The building improvements are owned by Moscow City Goverment. Land is held by ZAO "Kunzevo-Invest"
Effective Date of Value:	October 13, 2005
Land area:	n/a
Land use specification:	Residential
Year of construction:	Beginning: 4 quarter of 2010 Ending: 4 quarter of 2012
Total Gross Area of the Building:	64,791 of square metres according to the business plan provided by Sistema Hals
Residential area:	32,412 square metres according to the business plan provided by SistemaHals
Underground parking:	350 spaces according to the business plan provided by Sistema Hals.

Property Description

Location

The subject property is located in the West District of Moscow, Akademika Pavlova, 34-38. The street is pretty narrow with very low car traffic. The building is surrounded by a park area within 5 minutes walk on foot.

The nearest metro station, Molodejnaya on the Filevskaya Line is situated within approximately 10-15 minutes walk.

There is good vehicle access to the building from Rublevskoe shosse and Orshanskaya Street. But in view of the fact that Rublevskoe shosse is regularly closed for government use, it's rather difficult to enter Moscow city centre in rush hours.

Site Description

The site contains approximately 32,412 square metres of residential area, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in 1970, arranged over 5 floors above ground and 1 basement level, providing a building area of 64,791 sq.m with above ground area of 49,143 sqm and underground area 15,648 sq.m. The existing use of the buildings is as residential buildings.

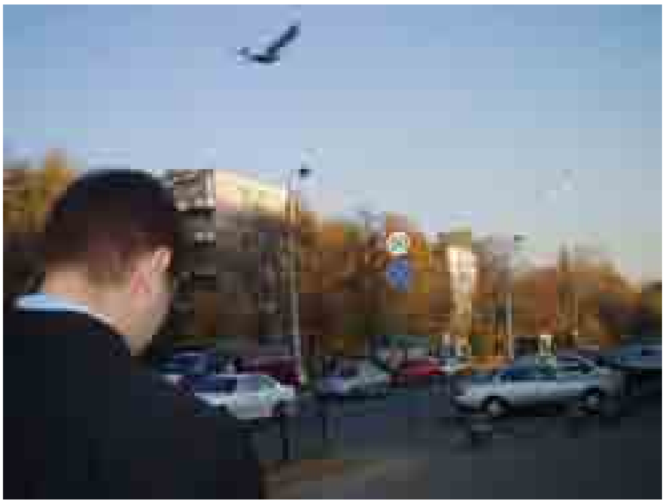
The property is held for redevelopment for residential of a slightly higher quality than the average level of buildings in the area, together with reconstruction of several quarters of the region. The project is now being developed and the total area of the reconstructed building is awaiting approval.

Elininskaya 28

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Name:	Kunzevo Project
Property Type:	Residential
Property Rights Appraised:	Investment opportunity for the building in accordance with: Moscow City Government Order #30-RP as of 14.01.2003.
Address:	28 Elninskaya, Moscow, Russia
Ownership:	The building improvements are owned by Moscow City Goverment. Land is held by ZAO "Kunzevo-Invest"
Effective Date of Value:	October 13, 2005
Location:	The property is located in the West District of Moscow, Kunzevo region.
Land area:	n/a
Land use specification:	Residential
Year of construction:	Beginning: 1 quarter of 2006 Ending: 1 quarter of 2009
Total Gross Area of the Building:	53,029 of square metres according to the business plan provided by Sistema Hals
Residential area:	26,900 square metres according to the business plan provided by SistemaHals
Underground parking:	320 spaces according to the business plan provided by Sistema Hals.

Property Description



Location

The subject property is located in the West District of Moscow, Elninskaya Str., 28. The street is wide with fairly heavy traffic. The building is surrounded by residential buildings, and is close to the metro station "Molodejnaya". The subject is located in a well-developed area.

The nearest metro station, Molodejnaya on the Filevskaya Line, is right across the street and it takes 20 minutes to get to the centre of the city.

There is a good vehicle access to the building from Yartsevskaya Street and Molodogvardeyskaya Street. But in view of that fact that Rublevskoe shosse, located 10 minutes walk from the building is regularly being closed for the government use, it's rather difficult to enter Moscow centre in the mornings and rush hours.

Site Description

The site contains approximately 26,900 square metres of residential land, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in 1970, arranged over 5 floors above ground and 1 basement level, providing a building area of 53,029 sqm with above ground area of 40,229 sq.m and underground area of 12,800 sq.m. The existing use of the buildings is as residential buildings.

The property is held for redevelopment. The plans for the site are as for the Kuntsevo Proeprty above.

Elininskaya 15

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Name:	Kunzevo Project
Property Type:	Residential
Property Rights Appraised:	Investment opportunity for the building in accordance with: Moscow City Government Order #30-RP as of 14.01.2003.
Address:	15 Elninskaya Moscow, Russia
Ownership:	The building improvements are owned by Moscow City Goverment. Land is held by ZAO "Kunzevo-Invest"
Effective Date of Value:	October 13, 2005
Location:	The property is located in the West District of Moscow, Kunzevo region.
Land area:	n/a
Property Description:	"Enhanced comfort" residential building.
Year of construction:	Ending: 2 quarter of 2006
Number of stories:	From three to nine above ground stories
Land use specification:	Residential
Residential area	21,790 square metres according to the business plan provided by Sistema Hals

Property Description

Location

The subject property is located in the West District of Moscow, Elninskaya Str., 15. The street is wide with pretty heavy traffic. The building is surrounded by other residential buildings and a park area.

The nearest metro station, Molodejnaya on the Filevskaya Line, is situated within approximately 2 minutes walk and it takes 20 minutes to get to the city centre.

There is a good vehicle access to the building from Yartsevskaya Street and Molodogvardeyskaya Street. But in view of that fact that Rublevskoe shosse, located 10 minutes walk from the building, is regularly being closed for government use, it's rather difficult to enter Moscow centre in the mornings and rush hours by car.

Site Description

The site contains approximately 21,790 square metres of residential area, most of which is covered by the building improvements.

Improvements Description

The property comprises an "enhanced comfort" building. Completion of the building is at 90%.

111 Rublevskoye Shosse

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Name:	Kunzevo Project
Property Type:	Residential
Property Rights Appraised:	Investment opportunity for the building in accordance with: Moscow City Government Order #30-RP as of 14.01.2003.
Address:	111 Rublevskoe shosse Moscow, Russia
Ownership:	The building improvements are owned by Moscow City Goverment. Land is held by ZAO "Kunzevo-Invest"
Effective Date of Value:	October 13, 2005
Location:	The property is located in the West District of Moscow, Kunzevo region.
Land area:	n/a
Land use specification:	Residential
Year of construction:	Beginning: 2 quarter of 2005 Ending: 2 quarter of 2007
Total Gross Area of the Building:	25 935 of square metres according to the business plan provided by Sistema Hals
Residential area:	12 729 square metres according to the business plan provided by SistemaHals
Underground parking:	142 slots according to the business plan provided by Sistema Halsa and 128 of them to realization

Property Description

Location

The subject property is located in the West District of Moscow, Rublevskoe shosse, 111a. As of today the property is occupied by the children's playground and auto garages located in park area.

The nearest metro station Molodejnaya of Filevskaya Line is situated within approximately 10 minutes walk

There is a good vehicle access to the land plot from Rublevskoe shosse. But in view of that fact that this road is constantly being closed for the government use, it's rather difficult to enter Moscow centre in rush hours.

Site Description

The site contains approximately 12 729 square metres of residential area, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in 1970, arranged over 5 floors above ground and 1 basement level, providing a building area of 25 935 sqm with over ground area of 19 730 sq.m. under ground area 6 205 sq.m. The existing use of the buildings is as a residential buildings.

The property is held for redevelopment. Planning residential a little bit higher then average level buildings and reconstruction of several quarters of the region. The project is now under development the total area of the reconstructed building is being approved.

Yartsevskaya 27b

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Name:	Kunzevo Project
Property Type:	Residential
Property Rights Appraised:	Investment opportunity for the building in accordance with: Moscow City Government Order #30-RP as of 14.01.2003.
Address:	27b Yartsevskaya Moscow, Russia
Ownership:	The building improvements are owned by Moscow City Goverment. Land is held by ZAO "Kunzevo-Invest"
Effective Date of Value:	October 13, 2005
Location:	The property is located in the West District of Moscow, Kunzevo region.
Land area:	n/a
Property Description:	Standard exchange building. The building has sixteen floors and one underground floor.
Land use specification:	Residential
Year of construction:	Beginning: 1 quarter of 2005 Ending: 1 quarter of 2007
Total Gross Area of the Building:	29 910 of square metres according to the business plan provided by Sistema Hals
Residential area:	15 000 square metres according to the business plan provided by SistemaHals
Underground parking:	167 slots according to the business plan provided by Sistema Halsa and 150 of them to realization

Property Description

Location

The subject property is located in the West District of Moscow, Kunzevo region at Yartsevskaya str., 27b. The street is rather bright with medium car traffic. The site is surrounded by residential buildings, Mega mall "Ramstor" and recently opened Entertaining complex "Kosmik".

The nearest metro station Molodejnaya of Filevskaya Line is situated within approximately 5 minutes walk.

There is a good vehicle access to the site from Rublevskoe shosse and Molodogvradeyskaya Street. But in view of that fact that Rublevskoe shosse is constantly being closed for the government use, it's rather difficult to enter Moscow centre in rush hours and it causes traffic jams on Molodogvardeyskaya Street and the border streets.

Site Description

The site contains approximately 15 000 square metres of residential land, most of which will be covered by the building improvements.

Improvements Description

The property comprises two buildings, arranged over 16 floors above ground and 1 basement level, providing a building area of 29 910 sqm with over ground area of 23 270 sq.m. under ground area 6 640 sq.m.

The project is now under development.

34 Yartsevskaya

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Name:	Kunzevo Project
Property Type:	Residential
Property Rights Appraised:	Investment opportunity for the building in accordance with: Moscow City Government Order #30-RP as of 14.01.2003.
Address:	34 Yartsevskaya Moscow, Russia
Ownership:	The building improvements are owned by Moscow City Goverment. Land is held by ZAO "Kunzevo-Invest"
Effective Date of Value:	October 13, 2005
Location:	The property is located in the West District of Moscow, Kunzevo region.
Land area:	n/a
Land use specification:	Residential
Year of construction:	Beginning: 3 quarter of 2008 Ending: 3 quarter of 2011
Total Gross Area of the Building:	48 057 of square metres according to the business plan provided by Sistema Hals
Residential area:	21 600 square metres according to the business plan provided by SistemaHals
Underground parking:	400 slots according to the business plan provided by Sistema Halsa and 360 of them to realization

Property Description

Location

The subject property is located in the West District of Moscow, Kunzevo region at Yartsevskaya str., 34. The street is rather bright with medium car traffic. The building is surrounded by Mega mall “Ramstor” and recently opened Entertaining complex “Kosmik”.

The nearest metro station Molodejnaya of Filevskaya Line is situated within approximately 5 minutes walk.

There is a good vehicle access to the building from Rublevskoe shosse and Molodogvradeyskaya Street. But in view of that fact that Rublevskoe shosse is constantly being closed for the government use, it’s rather difficult to enter Moscow centre in rush hours it causes traffic jams on Molodogvardeyskaya Street and the border streets.

Site Description

The site contains approximately 21 600 square metres of residential land, most of which will be covered by the building improvements.

Improvements Description

The property comprises a standard building constructed in 1970, arranged over 5 floors above ground and 1 basement level, providing a building area of 48 057 sqm with over ground area of 32 057 sq.m. under ground area 16 000 sq.m. The existing use of the buildings is as residential buildings.

The property is held for redevelopment. Planning residential a little bit higher then average level buildings and reconstruction of several quarters of the region. The project is now under development the total area of the reconstructed building is being approved.

Bolshaya Tatarskaya Industrial Premises

Summary of Salient Facts and Conclusions

Property Appraised:	Thirteen buildings (including industrial building, boiler house, two office buildings, three substations and two warehouses buildings) of about 12 000 square metres total floor space.
Location:	The subject property is situated at 35 Tatarskaya Street, Zamoskvorechie of Moscow, Russian Federation.
Owner of Record:	JSC "Sistema Temp"
Date of Inspection:	9 November, 2005
Interest Appraised:	Full ownership rights for the buildings. The land underlying the property belongs to the State and we could not obtain exact information when it is going to be acquired by the company.

Property Description

Thirteen buildings (including industrial building, boiler house, two office buildings, three substations and two warehouses buildings) of about 12 000 square metres total floor space.

Located at the territory of Moscow Radio Plant "Temp" are various buildings former utilized for radio production, and storage of raw materials and ready products. All these building assets are listed and described in Exhibit . They are detailed according to a general building plan provided by management.

Most of the subject property consists of low-cost construction buildings, which were built in the 1930-1950s. Their current condition can be described as poor to average.

Please refer to Exhibit for a complete listing of the real property assets and details such as building type, square metres, year built and condition.

EXHIBIT - BUILDINGS AND SITE IMPROVEMENTS

35 Tatarskaya, str., Bldg. #		Year Built	Total Area Sq. m. according to State Certificate	Tenancies	Owner	Condition	Photo	Material
4	Main office	1936/1998 fully reconstructed	5421,4	Sistema Hals, Concern "Radio center", Fitness club	JSC "Sistema Temp"	Good.		Brick/Concrete
6	Industrial/warehouse	n/a	3291,4	no	JSC "Sistema Temp"	Poor		Brick/Wood
7-9	Boiler house	1946/1965 reconstructed	879,2	no	JSC "Sistema Temp"	Poor		Brick/Concrete
10	Warehouse	1956	185,1	safeguarding company	JSC "Sistema Temp"	Avg.		Brick/Concrete
12	Substation	n/a	425,5	no	JSC "Sistema Temp"	Poor		Brick/Concrete/Wood
13	Substation	n/a	268,1	no	JSC "Sistema Temp"	Poor		Brick/Concrete/Wood
15-16	Substations	1937/1957overbuild	415,4	no	JSC "Sistema Temp"	Poor		Brick/Wood
23-24	Office	1987	799,8	Rosno/JSC "Sistema Temp"	JSC "Sistema Temp"	23 -Avg., 24-Poor		Brick/Concrete
25-27	Warehouses	1956	242,4	no	JSC "Sistema Temp"	Poor		Brick/Concrete
	Total		**11928,3**					

Good Condition - No obvious maintenance required, but neither is everything new. Appearance and utility are above the standard, and the overall effective age will be lower than the typical property.

Average Condition - Some evidence of deferred maintenance and normal obsolescence with age in that a few minor repairs are needed, along with some refinishing. But with all major components still functional and contributing toward an extended life expectancy, effective age and utility are standard for like properties of its class and usage.

Poor Condition (Worn Out) - Repair and overhaul needed on painted surfaces, roofing, plumbing, heating, numerous functional inadequacies, substandard utilities, etc. (found only in extraordinary circumstances). Excessive deferred maintenance and abuse, limited value-in-use, approaching abandonment or major reconstruction; reuse or change in occupancy is imminent. Effective age is near the end of the scale regardless of the actual chronological age.

Valuation Commentary

General

The property occupies an excellent location in the second most important commercial sub-market of Moscow – Zamoskvorechie, which lies within the garden ring and to the south of the big loop made by the Moscow river. There is a large amount of office development within this area – but nevertheless there remains a shortage of supply compared with the demand in this area and therefore rental levels are high and vacancy rates are low.

Recently completed projects in the area, such as Avrora Business Park, have been very successful and any further office development is likely to perform similarly as the existing pipeline of projects remains limited.

The property is currently a set of industrial buildings in variable condition, with parts of the premises having been refurbished for Class B office uses. There are currently no plans for redevelopment of the site and it is not clear what level of development would be permissible at the site.

In accordance with the information supplied to us the Company has ownership of the buildings, but does not currently have rights to the underlying land. Therefore it is believed that the buildings could be traded, but unless and until the rights to the land are settled it will not be possible to redevelop the site. Therefore the property has been valued in its existing condition rather than as a potential redevelopment project.

Returns

Type	Area	Rental Value Per sqm	Total RV	Cap. Rate	Total Value
Main Office	5421.4	480	$2,602,272	17%	$15,307,482
Ind / Warehouse	3291.4	150	$493,710	20%	$2,468,550
Boiler House	879.2	0	$0		$0
Warehouse	185.1	150	$27,765	20%	$138,825
Substation	425.5		$0		$0
Substation	268.1		$0		$0
Substation	415.4		$0		$0
Office	799.8	450	$359,910	17%	$2,117,118
Totals	**11,686**		**$3,483,657**	**17.39%**	**$20,031,975**

In addition a detailed analysis was carried out as to the potential redevelopment value of the site – based on either a renovation or reconstruction of the existing buildings within their current footprints, and full details of this are shown in the financial analysis. However – due to the difficulties of such a development and the fact that there are no legal rights for any of the land around, this approach generates a lower value.

Big City

Cushman & Wakefield Stiles & Riabokobylko have been provided with a small number of documents in connection with this project. This includes an agreement between the Moscow City government department of town planning, politics redevelopment and reconstruction and ZAO "Bolshoi Gorod" (the company) dated 13th October 2005 (which for the current purposes seems to be the most important document. N.B. No details of the ownership of ZAO "Bolshoi Gorod" has been provided at this stage.) 2 PPMs dated 8th February 2005 and 2nd August 2005 concerning the development of the area known as "Bolshoi Gorod", an initial master plan of the site, a contents page of documents to be prepared and an anticipated breakdown of costs for the preparation of the initial master plan for the site through the Moscow City Architecture Committee.

The first agreement confers obligations on the company to prepare the master planning for the area together with preparation of financing plans for various stages. The agreement specifies that the company is entitled to compensation of his expenses in undertaking these obligations after the preparation of tenders and the completion of auctions to investors.

There is no specific mention in any of the documentation provided as to the level of compensation due to the company – i.e. whether this is in line with the costs incurred or whether further compensation is payable. However – the cashflow provided to us deals with the incurring and recovery of costs for the preparation of the master plan and supporting documentation itself. No projections or business plan has been received covering any other income that the company may be able to earn. It is also clear to what extent the rights and obligations of the company are tradeable – although it is assumed that the shares of the company ZAO "Bolshoi Gorod" are tradeable (subject to receiving further documentation on the structure of the company itself.) However it is clear that currently neither the company or Sistema Hals have any property rights in the area.

In our meeting with Azariy Lapidus at the office of Sistema Hals we were informed that the land plot extends to 985 hectares which was intended for the development of 12 million square metres of space – 6 million sqm residential and 6 million sqm commercial. It is assumed that this is above ground development only and that this is the gross construction area – although clearly this exact information is not available.

We have been informed that the sale price of individual lots will be made up of the following: Investment costs plus sale price of SPV plus 15% Sistema Overhead. It is not clear whether this 15% applies to the entire amount or only to the sale price of the SPV – however for the purposes of this exercise it is assumed that the 15% relates to the entire amount and it is assumed that the payment will be phased in accordance with the development costs incurred by individual developers.

At the same meeting C&W S&R were informed that the project, although scheduled to be completed by 2020, was more likely to take until 2030. It has been assumed, rather simplistically but based on the information provided, that the sales and development costs will be spread equally over the period 2007-2030 and total development costs have been assumed, conservatively, to be US$1,500 per square metre.

On the basis of all of these assumptions a very simple cashflow can be developed. However – should any of these assumptions be incorrect, or should any further or different information become available, then this information will need to be corrected. In addition, it must be again noted that the rights to this cashflow have not been established definitively, nor has the ability to trade them on the market.

Therefore the potential cashflow, subject to verification, is laid out below:

Big City Cashflow

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Documentation Stage											
Preparation of Documentati	-1 790 000										
Compensation for Consulta	47 600	238 000	714 000	714 000	952 000	904 400	714 000	476 000			
Based on schedule provided											
Total	**-1 742 400**	**238 000**	**714 000**	**714 000**	**952 000**	**904 400**	**714 000**	**476 000**	**0**	**0**	**0**
Discount Rate	18%										
	0	1	2	3	4	5	6	7	8	9	10
NPV Factor	1	0,84745763	0,71818443	0,60863087	0,515788875	0,437109216	0,370431539	0,313925033	0,266038164	0,225456071	0,191064467
NPV Cashflow	-1 742 400	201 695	512 784	434 562	491 031	395 322	264 488	149 428	0	0	0
Cumulative NPV Cashflow	-1 742 400	-1 540 705	-1 027 921	-593 359	-102 328	292 994	557 482	706 910	706 910	706 910	706 910
NPV	**706 910**										
Returns from Development %											
Sqm Developed			200 000	400 000	400 000	524 000	524 000	524 000	524 000	524 000	524 000
Cost ($/sqm)			1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
Big City Percentage	15%										
Big City Income			**45 000 000**	**90 000 000**	**90 000 000**	**117 900 000**	**117 900 000**	**117 900 000**	**117 900 000**	**117 900 000**	**117 900 000**
Discount Rate	75%										
	0	1	2	3	4	5	6	7	8	9	10
NPV Factor	1	0,84745763	0,71818443	0,60863087	0,515788875	0,437109216	0,370431539	0,313925033	0,266038164	0,225456071	0,191064467
NPV Cashflow	0	0	32 318 299	54 776 779	46 420 999	51 535 177	43 673 878	37 011 761	31 365 900	26 581 271	22 526 501
Cumulative NPV Cashflow	0	0	32 318 299	87 095 078	133 516 077	185 051 253	228 725 132	265 736 893	297 102 793	323 684 063	346 210 564
NPV	**460 905 989**										

Big City Cashflow										
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Documentation Stage										
Preparation of Documentation										
Compensation for Consultancy										
Based on schedule provided										
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Discount Rate										
	11	12	13	14	15	16	17	18	19	20
NPV Factor	0.16191904	0.137219525	0.116287733	0.098548926	0.083516039	0.070776305	0.059979919	0.05083044	0.043076644	0.036505631
NPV Cashflow	0	0	0	0	0	0	0	0	0	0
Cumulative NPV Cashflo	706,910	706,910	706,910	706,910	706,910	706,910	706,910	706,910	706,910	706,910
NPV										
Returns from Development %										
Sqm Developed	524,000	524,000	524,000	524,000	524,000	524,000	524,000	524,000	524,000	524,000
Cost ($/sqm)	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Big City Percentage										
Big City Income	**117,900,000**	**117,900,000**	**117,900,000**	**117,900,000**	**117,900,000**	**117,900,000**	**117,900,000**	**117,900,000**	**117,900,000**	**117,900,000**
Discount Rate										
	11	12	13	14	15	16	17	18	19	20
NPV Factor	0.16191904	0.137219525	0.116287733	0.098548926	0.083516039	0.070776305	0.059979919	0.05083044	0.043076644	0.036505631
NPV Cashflow	19,090,255	16,178,182	13,710,324	11,618,918	9,846,541	8,344,526	7,071,632	5,992,909	5,078,736	4,304,014
Cumulative NPV Cashflo	365,300,819	381,479,001	395,189,325	406,808,243	416,654,784	424,999,310	432,070,943	438,063,852	443,142,588	447,446,602
NPV										