



**STRICTLY  
CONFIDENTIAL –  
FOR ADDRESSEE ONLY**

**Report and Valuation  
for**

**MIRLAND DEVELOPMENT  
CORPORATION PLC**

**Of the Properties  
together known as**

**“THE MIRLAND  
DEVELOPMENT  
CORPORATION ASSETS”,  
RUSSIA**

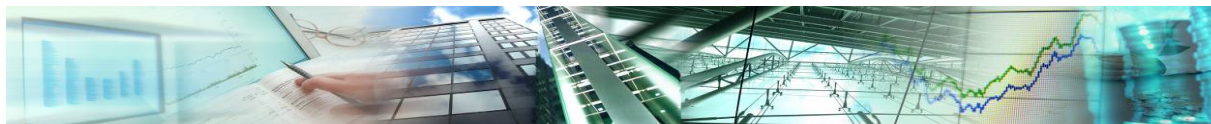
**Date of Valuation  
31<sup>ST</sup> OF DECEMBER 2010**

**Date of report issue  
10<sup>TH</sup> OF MARCH 2011**

**Prepared by**

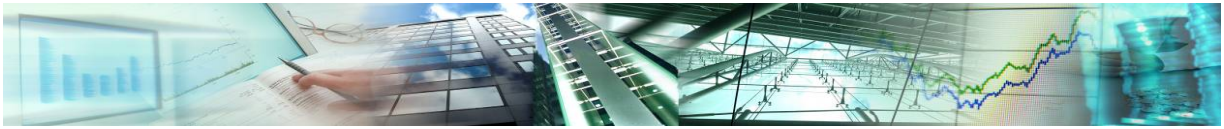
**Cushman & Wakefield  
125047, Moscow, Ducat  
Place III, 6 Gasheka St,  
Tel: +7 (495) 797-9600  
Fax: +7 (495) 797-9601**





## Table of Contents

1.1	SCOPE OF INSTRUCTIONS .....	3
1.2	BASIS OF VALUATION .....	3
1.3	TENURE AND TENANCIES .....	4
1.4	NET ANNUAL RENT .....	5
1.5	TOWN PLANNING .....	6
1.6	STRUCTURE .....	6
1.7	SITE AND CONTAMINATION .....	6
1.8	PLANT AND MACHINERY .....	7
1.9	INSPECTIONS, AREAS AND DIMENSIONS .....	7
1.10	GENERAL PRINCIPLES .....	7
1.11	MARKET UNCERTAINTY .....	8
1.12	SPECIAL ASSUMPTIONS, RESERVATIONS AND DEPARTURES .....	9
1.13	CONFLICT OF INTEREST .....	9
1.14	DISCLOSURE .....	9
1.15	AGGREGATE VALUATION .....	9
1.16	CONFIDENTIALITY .....	12
<b>APPENDIX ONE</b> .....		13
VALUATION METHODOLOGY .....		13
GLOBAL ASSUMPTIONS FOR THE SALES COMPARISON APPROACH .....		16
GLOBAL ASSUMPTIONS FOR THE INCOME APPROACH .....		19
SCHEDULE OF VALUES .....		28
SUMMARY TABLE .....		29
PROPERTIES HELD AS INVESTMENTS .....		31
PROPERTIES IN COURSE OF DEVELOPMENT .....		37
PROPERTIES HELD FOR FUTURE DEVELOPMENT .....		42
<b>APPENDIX TWO</b> .....		48
MARKET COMMENTARY .....		48
<b>APPENDIX THREE</b> .....		69
BOOK VALUES .....		69
<b>APPENDIX FOUR</b> .....		70
SUMMARY OF MAIN VALUATION PARAMETERS .....		70
<b>APPENDIX FIVE</b> .....		71
DISCOUNT RATE BREAKDOWN .....		71
<b>APPENDIX SIX</b> .....		75
FINANCIAL MODELS .....		75
<b>APPENDIX SEVEN</b> .....		87
SENSITIVITY ANALYSIS .....		87
<b>APPENDIX EIGHT</b> .....		90
VALUATION LICENSES .....		90
<b>APPENDIX NINE</b> .....		91
PRINCIPAL TERMS AND CONDITIONS OF APPOINTMENT AS VALUERS .....		91



MirLand Development Corporation Plc  
Cyprus, Limassol 3025  
Thessaloniki Street  
Nicolau Pentadromos Centre,  
Floor 10, office 1002



Real Estate Consultants

Ducat Place III, 6 Gasheka St.,  
Moscow, Russia, 115035  
Tel +7 495 797 9600  
Fax +7 495 797 9601  
[www.cushmanwakefield.ru](http://www.cushmanwakefield.ru)

For the attention of Mr. Roman Rozental

10<sup>TH</sup> of March 2011

Dear Mr. Rozental

**MIRLAND DEVELOPMENT CORPORATION PLC ("the Company")  
Various Properties Together Known As The "Mirland Development  
Corporation Assets" ("The Properties")**

In accordance with the contracts between ourselves and MirLand Development Corporation plc dated 31<sup>st</sup> of December 2010 respectively, we have pleasure in reporting to you as follows:

**1.1 SCOPE OF INSTRUCTIONS**

We, Cushman & Wakefield (herein referred as "C&W"), have considered each property as set out in the Appendix.

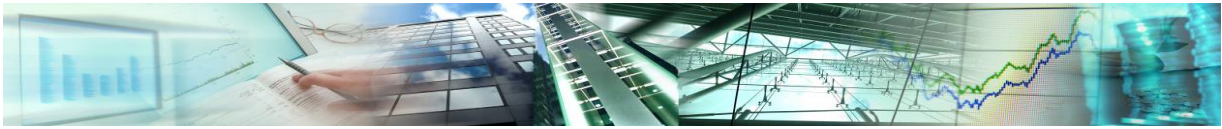
We are instructed to prepare this Valuation Report for financial reporting purposes. The effective date of each valuation is 31<sup>st</sup> of December 2010.

Each valuation has been in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards ("the Red Book") published by The Royal Institution of Chartered Surveyors and amended in April 2010 (6th edition). The valuation has been prepared by a valuer who conforms to the requirements as set out in the Red Book, acting in the capacity of an independent valuer.

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

**1.2 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.”*

### **1.3 TENURE AND TENANCIES**

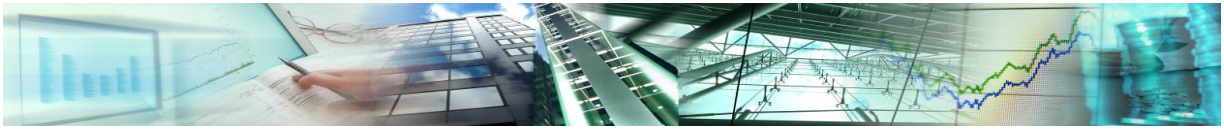
We have not reviewed the Title Deeds or Leases and each valuation has been based entirely on the information which the Company has supplied to us as to tenure, tenancies and statutory notices. We understand each property is either held by the Company, its subsidiaries, or jointly with third parties. 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 for each individual property. In the summary below, an apportionment has been provided taking into account the share ownership of each property as provided to us by the Company. This is a straight apportionment based on these percentages, and no further deductions have been made to reflect minority share ownerships or the fact of fractional ownership. This number therefore may differ from the Market Value for the share ownership of individual properties, particularly when only a minority interest is held by the Company.

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 into 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.

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 share interest in the requisite Property or in order to obtain the necessary permits, these costs have been taken into account in the valuation in full.

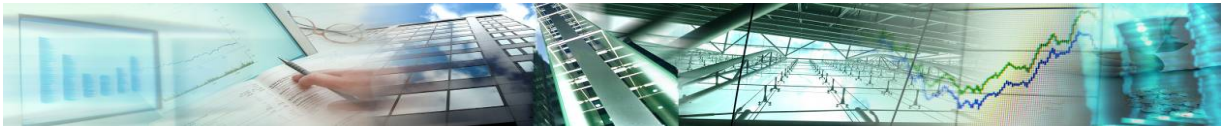
For some properties we have been informed by the Company that investment contracts are held for the development. In these cases our valuations assume that a ground lease and an ownership certificate will be issued upon completion of the development, as is normal development practice in Moscow.

#### **1.4 NET ANNUAL RENT**

The net annual rent for each property is referred to in the Schedule at Appendix One. 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”.*



## **1.5 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 International Valuation Standards has been considered for each property. The Highest and 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*”.

## **1.6 STRUCTURE**

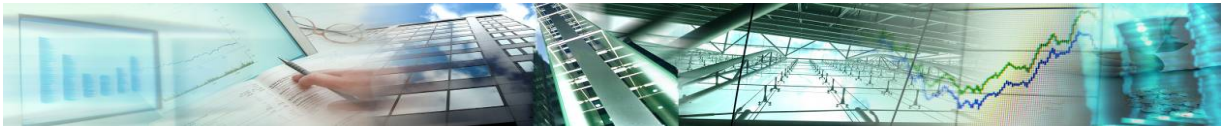
We have neither carried out a structural survey of each property, nor tested any services or other plant or machinery. We are therefore unable to give any opinion on the condition of the structure or services at any property. Each valuation takes into account any information supplied to us and any defects 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.

## **1.7 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.

### **1.8 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.

### **1.9 INSPECTIONS, AREAS AND DIMENSIONS**

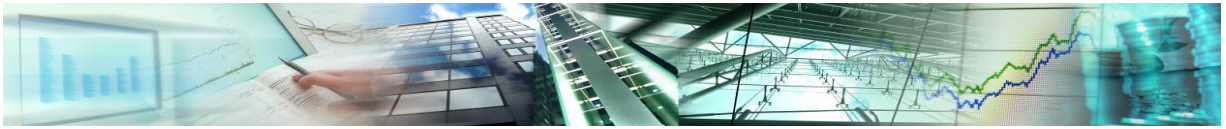
We have inspected each property internally and externally (except the properties held for development in Penza and Kazan) unless specific reference is made to a limited inspection. Further inspections have been carried out where there have been significant changes to any individual property, and these further inspection dates, where applicable, are identified in the property descriptions below.

No measured surveys have been carried out by C&W. 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 references to the age of buildings are approximate.

### **1.10 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) identified in the valuation schedule below.

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 the contracts referred to above, our terms of engagement and in particular our Standard Terms and Conditions of Appointment of Cushman & Wakefield as Valuers.

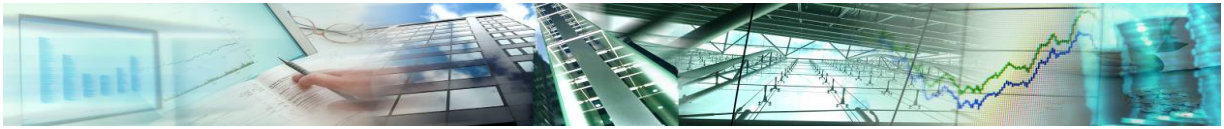
## **1.11 MARKET UNCERTAINTY**

Where uncertainty could have a material effect on an opinion of value, the Red Book requires a valuer to draw attention to this, indicating the cause of the uncertainty and the degree to which this is reflected in the valuation reported.

The global banking crisis and consequent reduction in the availability of debt, coupled with the economic downturn, have caused property values to experience sharp falls in value and liquidity, with very few transactions being completed.

Although recent transactions could be considered distressed, it is inappropriate to conclude that all recent market activity represents forced transactions. An imbalance between supply and demand (for example, fewer buyers than sellers) is not always a determinant of a forced transaction. A seller might be under financial pressure to sell, but it is still able to sell at a market price if there is more than one potential buyer in the market and a reasonable amount of time is available for marketing. Similarly, transactions initiated during bankruptcy should not automatically be assumed to be forced.





It has been held that valuers may properly conclude within a range of values. This range is likely to be greater in an illiquid market where inherent uncertainty exists and a greater degree of judgement must therefore be applied.

Some parts of the market, particularly for secondary or vacant properties, have experienced particularly nil transaction volumes. As a consequence, there's hardly any market evidence upon which to base our valuation and so we have had to exercise a greater degree of judgement than usual. We have considered both current and historic market evidence available and endeavoured to reflect current market sentiment, although the signals are mixed. We strongly recommend that you keep the valuation of the subject property under review. You should also anticipate a longer marketing period than would previously have been expected in the event that the property is offered for sale.

### **1.12 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.

### **1.13 CONFLICT OF INTEREST**

We confirm that there are no conflicts of interest in our advising you on the value of the Properties.

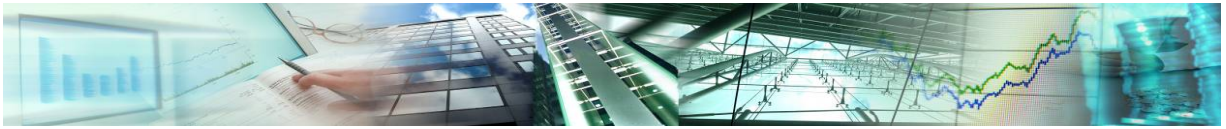
The fee paid to us bears no impact whatsoever on the outcome of the appraisal. The goal of this Report is not to attain a previously agreed market value or its derivative, favorable to the interests of the Client.

### **1.14 DISCLOSURE**

The members of The Royal Institution of Chartered Surveyors signing this Report have previously been the signatories to the valuations provided to the Company for the same purposes as this Valuation Report. C&W have previously carried out these valuations for the same purpose as this Valuation Report on behalf of the Company.

### **1.15 AGGREGATE VALUATION**

Subject to the foregoing, and based on values current as at 31<sup>st</sup> of December 2010, we are of the opinion that the aggregation of the Market Value of each 100% share of each freehold and leasehold interest each property, as set out in the appendix, is the total sum of (rounded):

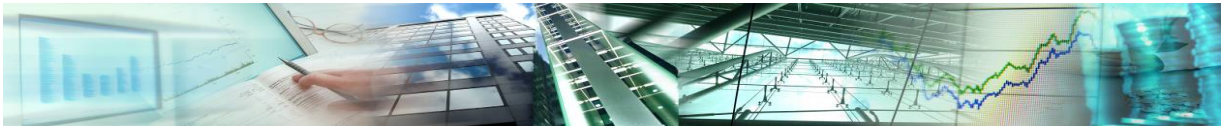


**US\$867,900,000**

**EIGHT HUNDRED SIXTY SEVEN MILLION AND NINE HUNDRED  
THOUSAND US DOLLARS  
NET OF VAT**

This sum may be apportioned as follows:

	<b>Freehold (rounded)</b>	<b>Leasehold (rounded)</b>
Properties held as Investments	US\$186,900,000	US\$220,100,000
Properties in the Course of Development	US\$90,800,000	US\$36,300,000
Properties Held for Development	US\$265,100,000	US\$68,700,000
<b>Total</b>	<b>US\$542,800,000</b>	<b>US\$325,100,000</b>



Based on the information supplied to us as regards ownership, we are of the opinion that the Market Value of the Company's beneficial share in each Property, on the basis outlined above is the total sum of (rounded):

**US\$775,400,000**

**SEVEN HUNDRED SEVENTY FIVE MILLION AND FOUR HUNDRED  
THOUSAND US DOLLARS  
NET OF VAT**

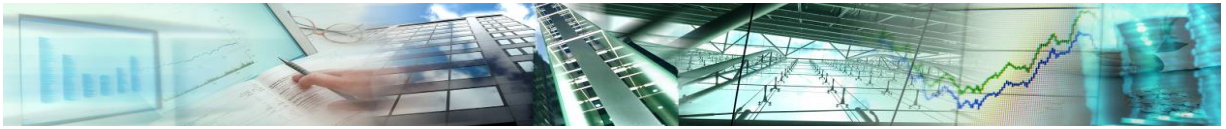
This sum may be apportioned as follows:

	<b>Freehold (rounded)</b>	<b>Leasehold (rounded)</b>
Properties held as Investments	US\$144,900,000	US\$173,700,000
Properties in the Course of Development	US\$90,800,000	US\$36,300,000
Properties Held for Development	US\$261,000,000	US\$68,700,000
<b>Total</b>	<b>US\$496,700,000</b>	<b>US\$278,700,000</b>

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 (e.g. 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 un-leveraged 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.



## **I.16 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 or only parts of this report, in respect of the MirLand Development Corporation financial reporting related to its public listing at AIM and TASE.

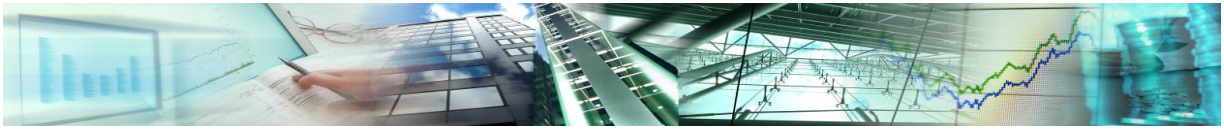
Yours faithfully

For and on behalf of Cushman & Wakefield

**Stanislav Bibik MScSurv CCIM MRICS**

Deputy Head of Valuation & Advisory

Associate



## **APPENDIX ONE**

### **VALUATION METHODOLOGY**

#### **GLOBAL ASSUMPTIONS**

#### **SCHEDULE OF VALUES**

#### **PROPERTY SCHEDULES : SUMMARY TABLE**

#### **PROPERTY SCHEDULES : PROPERTIES HELD AS INVESTMENTS**

#### **PROPERTY SCHEDULES : PROPERTIES IN COURSE OF DEVELOPMENT**

#### **PROPERTY SCHEDULES : PROPERTIES HELD FOR DEVELOPMENT**

### **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 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.

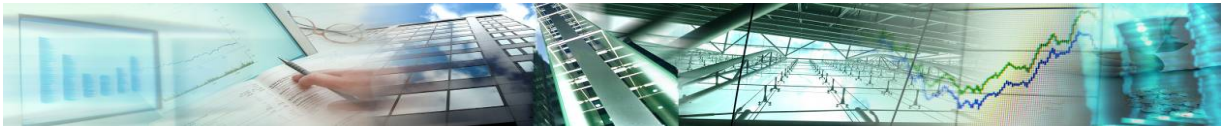
#### **The Cost Approach**

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).

#### **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 apply this valuation technique to any property. In Russia 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 Russia 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 Russian 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.

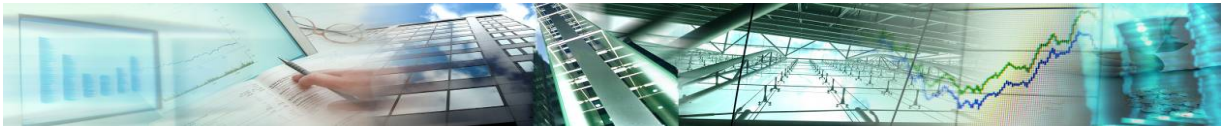
Development sites are transacted, but these transactions are usually “off-market” and therefore reliable comparable information is therefore only available to the parties to the transactions and their advisers – who are usually bound by confidentiality restrictions.

We are aware of the details of a number of transactions of land held for development. This comparable information has been taken into account in assessing the valuations herein, and where possible these comparables are referred to. However – in most cases we are bound by confidentiality and therefore can only provide guideline information.

We applied this method where it was applicable in order to develop our judgement on the market value of each property.

For the purpose of this valuation we applied this method to the properties where it was possible to find relevant comparable offers and information on their status and price. This method was applied while valuing land plots, intended for retail complex development in Penza and Kazan and a land plot in Saratov, intended for development of a logistics complex.

In respect of the land plot in Moscow (Skyscraper project), it should be stated that there are no similar comparables, possessing identical characteristic. Therefore we applied only the DCF method while valuing these Properties.



### **Special Assumption - Using prices from inactive markets<sup>1</sup>**

A quoted market price in an active market for an identical asset or liability is most representative of fair value and is required to be used (generally without adjustment). Transaction prices in inactive markets might be inputs when measuring fair value, but may not be determinative.

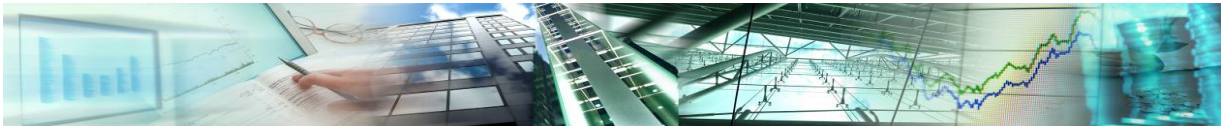
Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current. However, these factors alone do not necessarily mean that a market is no longer active and determining that a market is not active requires judgement. An active market is one in which transactions are taking place regularly on an arm's length basis. What is 'regularly' is a matter of judgement and depends upon the facts and circumstances of the market for the instrument being measured at fair value.

Regardless of the level of activity, transaction prices that do not represent distressed transactions cannot be ignored when measuring fair value using a valuation technique, although they might require significant adjustment based on unobservable data. When a market becomes inactive, it is not appropriate to conclude that all market activity represents forced liquidations or distress sales.

However, it is also not appropriate to conclude automatically that any transaction price is determinative of fair value. Determining fair value in a market that has become inactive depends on the facts and circumstances and may require the use of significant judgement. Regardless of the valuation technique used, an entity must include appropriate risk adjustments that market participants would make, such as for credit and liquidity.

---

<sup>1</sup> Using judgment to measure the fair value of financial instruments when markets are no longer active. An IASB Staff Summary. October 2008.



## **GLOBAL ASSUMPTIONS FOR THE SALES COMPARISON APPROACH**

We have used the Sales Comparison Approach to develop an opinion of land values. Within this approach, we have analyzed prices offered by owners for similar sites in the market. In making comparisons, we have adjusted the sale prices for differences between the Properties and the comparable sites. If the comparable was superior to the subject, a downward adjustment was made to the comparable sale. If inferior, an upward adjustment was made.

In the valuation of the freehold interest in the Properties, the Sales Comparison Approach has been used to establish the prices being paid for similarly zoned land. The most widely used and market oriented unit of comparison for properties with characteristics similar to those of the subject is the sale price per square meter of land area. All transactions used in this analysis are analyzed on this basis.

The major elements of this approach include tenure, permitted use of the land plot, status of the comparable, location of the property, its size, access to public utilities, documentation and technical conditions.

### **Discussion of Adjustments**

While assessing the adjustments, we were guided by common practice and based our assumptions on our previous experience in valuation of similar kind of assets.

#### **Tenure**

This adjustment describes the type of rights in regards of the property: freehold or leasehold. Practically all comparables used are held freehold as well as the subject Properties. Whereas the comparable is held leasehold for 49 years, an adjustment of 5-10% is considered to be appropriate. An adjustment of 10% was made to the Comparables 1 and 3 for Saratov Logistics as the land plots are held leasehold.

#### **Status**

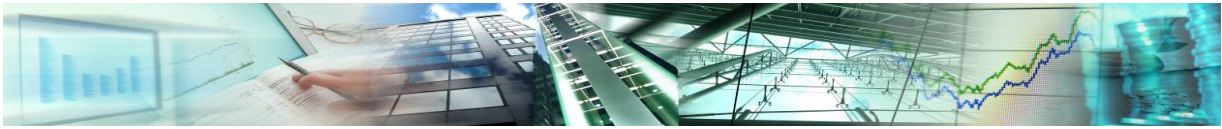
Adjustments for the type of comparable usually reflect the status of the comparable itself. As all comparables are open offers, we made necessary adjustments taking into account the discount that each owner is ready to give to the buyer. General market practice shows that owners are ready to give a 5-10% discount to the offer price. We made downward adjustments of 5% to reflect this fact.

#### **Permitted use**

This adjustment describes the permitted use every land plot has got. As all comparables have one and the same permitted use as the Properties, we did not make any adjustments in this respect.

As there were no deviations from the applicable zoning plan, no adjustments have been made in this respect to the subject Properties.





### Project Documentation and Technical Conditions

Existence of Project documentation and Technical conditions of different utilities always significantly increases the value of the land plot. This adjustment represents a money-based adjustment, which is measured not in the percentages but in the amount of money per 1 sq. m. invested into the project and connected with acquisition of all necessary documentation and technical conditions. In our case this adjustment was applied in respect of the Kazan land plot, which is undergoing the Project stage.

### Location

An adjustment for location is required when the location characteristics of a comparable property are different from those of the subject property. We have estimated the data relative to the location of the subject Properties including their specific location and immediate surroundings. Based on our analysis, we have made a downward adjustment to those comparables considered superior in location versus the subject. Conversely, an upward adjustment was made to those comparables considered inferior.

### Size

The size adjustment generally reflects the inverse relationship between the unit price and the lot size. Smaller lots tend to sell for higher unit prices than larger lots, and vice versa. Hence, upward adjustments were made to larger land parcels, and downward adjustments were made to smaller land parcels.

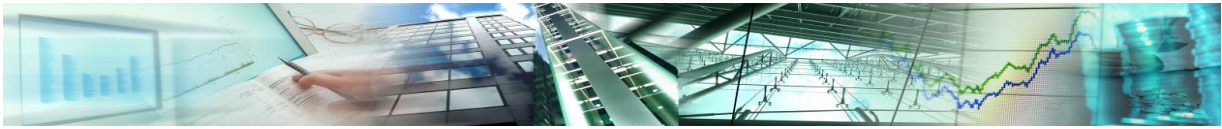
### Public Utilities

The public utilities adjustment usually reflects access to all necessary utilities such as gas, electricity and water supply. We have made a downward adjustment to those comparables where all technical conditions were agreed whereas for the subject Properties it was assumed that all necessary utilities are located nearby.

In regards to the Saratov land plot, this adjustment represents a money-based adjustment, which is measured not in the percentages but in the amount of money per 1 sq. m. invested into the project and connected with acquisition of necessary utilities – in our case the money was invested into the laying of electricity, construction of electricity sub-station and acquisition of technical conditions on 6Mwt of electricity.

### Weight

Taking into account nature, character and main characteristics of the comparable land plots, while valuing the land plots in Penza, we have weighted the adjusted values in order to come to the market value per 1 sq. m of the subject Property. Bigger weights were given to those Comparables, which are more similar to the subject Properties in their main characteristics and therefore their adjusted value better reflects the market value of the subject Property.



On the basis of all adjustments made we have estimated the market value for the subject Properties, derived from the average meaning of the adjusted prices for comparable sites or weighted average where appropriate. Summary tables are presented in the Appendix 6.

### **The Income Approach**

The most commonly used technique for assessing Market Value within the Income Approach is Discounted Cash-flow. This is a financial modelling technique based on explicit assumptions regarding the prospective cash-flow to a property or business and the costs associated with being able to generate the income. To this assessed cash-flow 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<sup>2</sup>. This approach is considered to be the most sophisticated valuation technique, because it allows differences between comparable sales and the subject property to be explicitly considered and analysed. It is therefore less based on subjective judgements but objectively on market available information.<sup>3</sup>

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 value 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, taxes paid over the operation incomes and tax for the sale of assets, 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.

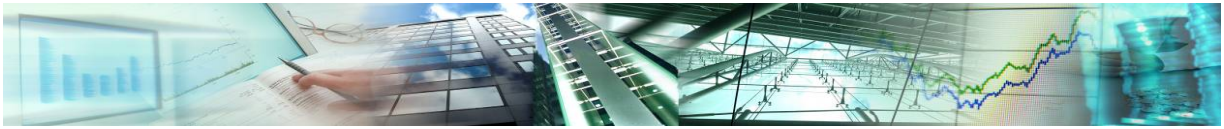
The difficulty in applying this method in the Russian market is assessing the correct market derived discount rate, due to the very small number of transactions, the lack of transparency in the reporting of information and in the wide variations in returns required on projects from different investors.

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 cash-flows. 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.

<sup>2</sup> International Valuation Standards Sixth Edition – Guidance Note 9

<sup>3</sup> International Valuation Standards Committee Newsletter - Global Valuation Issues (Sept. 2003)



In the Russian 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 capitalisation rates are therefore used to represent the risk-return requirement of investors.

## **GLOBAL ASSUMPTIONS FOR THE INCOME APPROACH**

For the subject Properties some general assumptions have been made in developing the residual valuations.

These are summarised below:

### **Acquisition Cost**

The properties are mainly owned. However, in the modelling process the Market Value for a third party purchaser has been treated as the initial investment;

### **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;

### **Utilities & Road Improvement**

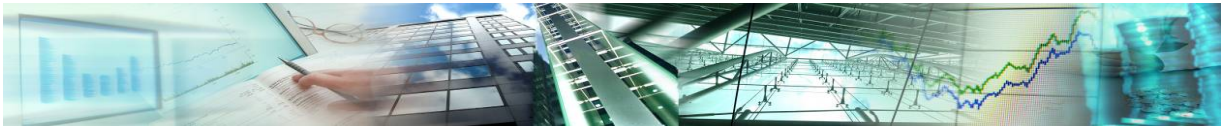
In Russia the cost of providing utilities and executing necessary road improvements can vary widely. Where utilities need to be provided or road works executed it has been assumed that the cost estimates supplied to us are accurate;

### **Construction Phasing**

All projects, unless specifically stated otherwise, have been assumed to be constructed in one phase. Due to the size of the Saint Petersburg (Residential and Trade Centre), Yaroslavl Phase 2 and Perkhushkovo projects it has been assumed that they 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. All the costs were provided to us by the Company, a reliable and a well-known developer, and were then double-checked by ourselves, based on the tables



and construction costs guidance that we have got in-house as well as the data on other developments in Russia that we have from the information provided on other valuation projects;

**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. The remaining construction costs are applied equally throughout the development period;

**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;

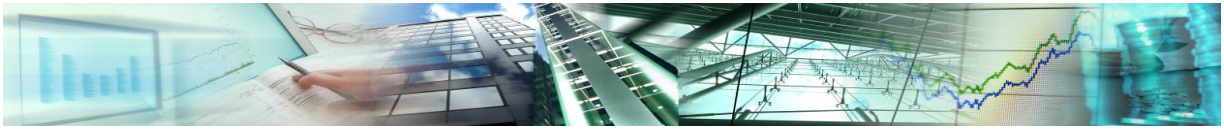
**Assumed Sale**

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. Taxes for the operation period and for the sale of assets were deducted from the proceeds (See taxes below). This is a valuation technique and does not necessarily represent the intention of the owner;

**Discount Rate**

We have considered the perceived risk associated with the subject Properties, as there is a direct correlation between a property's perceived risk and expected rate of return to an investor. Based on our knowledge of required rates of return for various investments, in particular real estate, as well as through discussions with persons active in the real estate market of Moscow, St. Petersburg and other regions, we have been able to estimate an appropriate discount rate that reflects the perceived risk and required rate of return for a property such as the subject one.

The term "discount rate" is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Thus the discount rate is



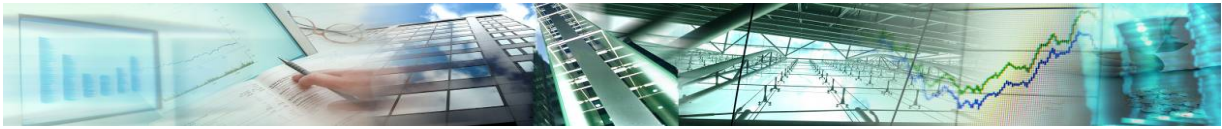
used to determine the amount an investor would pay today (present value) for the right to receive an anticipated stream of payments (e.g., cash-flows) in the future.

Generally, the discount rate is the rate of return that would be required by an investor to purchase the stream of expected benefits (e.g., future cash-flows), given the risk of achieving those benefits. Risk is generally defined as the degree of certainty or uncertainty as to the realisation of expected future returns. In terms of a discounted cash-flow projection, this can be interpreted as the probability and extent to which the future projections will be realised. In other words, it is the risk of achieving the projections.

The discount rate selected must be based on the same definition of cash-flow utilised in the valuation model.

The level of yield may vary in different areas of each region for many reasons such as condition, desirability of location, which might be related to such factors as accessibility, visibility, reputation, etc. Investors expect larger returns when investing in high-risk income properties. A discount rate, appropriate for each Property, was applied in each case.

While assessing the yields, we as appraisers had to work in conditions of market slowdown. As a consequence, there has been a significant reduction in market evidence upon which to base our valuation and so we have had to exercise a greater degree of judgment than usual. This is due to low level of investment activity which results in an imbalance between supply and demand therefore leading to forced transactions and distressed sales. Therefore we based our valuation on our overall experience and our knowledge of the market. While assessing an appropriate level of yields to each property in the portfolio, we used the available information about generalized capitalization rates for a certain real estate sector and a certain balance between prudent sellers' and willing buyers' expectations as well as analyzed general trends and correlations between all



market variables. Therefore the yields were mainly derived from the market perception and knowledge rather than from any kind of mathematical calculations, which cannot be fully relied on in view of the market volatility and low activity. All the numbers were confirmed internally with our in-house investment team that has its own range of external and internal sources of information, which is formed on the basis of regular discussions with buyers and sellers, available market data as well as with other consulting and investment companies.

When analyzing the level of yield for Mirland Business Centre properties located on 2<sup>nd</sup> Khutorskaya street, we have analyzed perceived level of risk associated with these properties which is discussed in greater detail below.

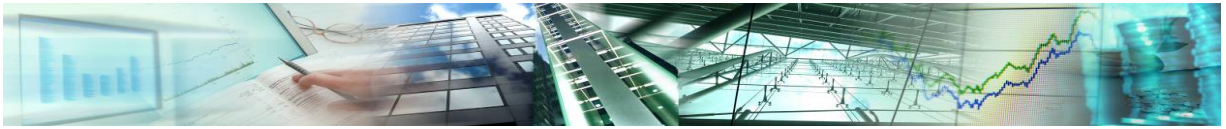
Based on the analysis of all salient facts and available information we have assessed the level of discount rate for MAG and Hydromashservice business centres as 12%.

When assessing the level of yield for Century building, we based our choice of the discount rate on the fact that the building was partly over-rented with a binding lease contract which was also taken into account in our valuation. Taking into account existing leasing and marketing risk for the property and considering the timing and the lease terms applied in the valuation, we have appropriately set a discount rate for the subject property at the level of 14%. We believe this provides a reasonable risk premium.

During our analysis of Tamiz office building we have taken into account all the relevant characteristics of the building and the current plans of the Company to complete fit-out works in the building by the end of May 2011 which we believe reasonable. Taking into account the above information we are of the opinion that a discount rate of 14% represents a reasonable level of yield for the subject property;

### **Exit Capitalization Rates**

The capitalization rates are derived from our analysis of recent market transactions, together with our market knowledge derived from Cushman &



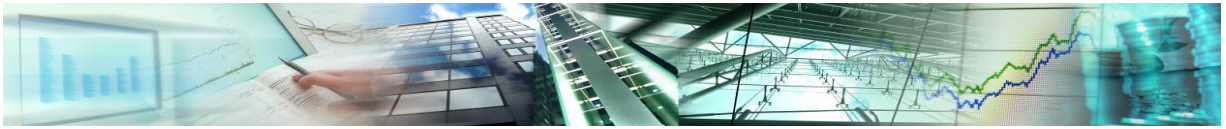
Wakefield's investment agency coverage. In view of the current state of the market a greater degree of judgment was applied than would be the case in more mature markets where there is a large amount of transactional evidence. Nevertheless the yield levels used in the valuation calculation are based on market evidence and our experience of working with investors looking to invest in the market and our knowledge of the levels of return that they are seeking from their investments.

It is necessary to note that the Russian investment market is revving up with prime capitalization rates at the level of 9% for offices, 10% for retail premises and 11% for warehouse properties. On the basis of our market analysis, our discussions with major investment market players and recent capital markets transactions, both executed and in the process of final negotiations, we have been able to assess the exit capitalisation rates for the subject commercial properties.

Now most of the money interested to move into the market is focused on the best assets in Moscow. In addition, well managed properties with good reputation and solid rent rolls will command a scarcity premium and will be most attractive to buyers and bankers alike. We believe that the improvement in macro fundamentals will lift interest in the retail and warehouse sectors, particularly once consumer spending accelerates to the extent we believe it has. Residential property is also attractive key of interest. Market capitalisation rates have been projected based on the assessment that the property investment market for Moscow, Saint Petersburg and the regions will become more sophisticated over the period and that the number of active investors will increase. We consider these to be both logical and appropriate;

## **Rental Rates**

Rental rates for commercial office and retail spaces have been projected together with capitalisation rates, for the period of the cash-flow. 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 and market information. Average rental rates in each segment and each region are presented in Appendix Two “Market Commentary”.

In respect of commercial rents they are exclusive of operating expenses and VAT and have been assessed on a conservative projection of future market movement. They therefore provide realistic minimum figures that it is anticipated can be achieved;

### **Rental Rates Growth**

Due to reviving market, its recovery and rather positive forecasts of the market experts and analysts, we decided to apply a moderate rental growth of 3% for all office and retail premises.

Growth rate for Saratov Triumph Mall was assessed at the level of 5%, which was mainly based on the existing lease contracts, which provide the best comparable evidence. Practically all lease agreements are mid- and long-termed (more than 5-10 years) and are indexed at 5 to 10% per year. Moreover, Triumph Mall in Saratov is a unique object and a landmark property reflecting new trends of the Saratov retail real estate market. Therefore we adopted a 5% growth-rate for the property.

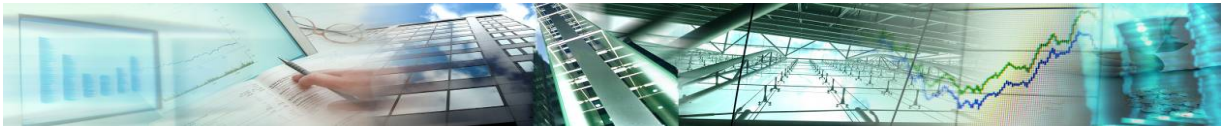
Growth rates for Residential part of Triumph Park in St. Petersburg were estimated at a conservative level of 5%. Taking into account general market trend of 10-15% price growth on residential apartments in prime location in St. Petersburg, we believe this is reasonable;

Growth rate of 10% was adopted for Perkhushkovo cottage settlement taking into account average market trend of 10-15% price growth on cottages of this type and in this direction and distance from MKAD;

### **Sale Prices**

Sales prices for residential properties have been analyzed on the basis of the current sales program together with the current market situation. In addition, we have analyzed the current deals in the market as at the date of valuation;



**Review / Renewal Period**

This is the length of the initial leases. The rents for the initial leases remain fixed for their entire term, in line with current market practices where indexation and rent reviews are not prevalent, 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, its location, the local market and the relative merits of each anticipated project. Vacancy rates in a cutaway view of each particular Property in each particular city were agreed with our internal brokers' departments, which have deep knowledge and large experience in all sectors of commercial real estate all over Russia;

**Operating Expenses**

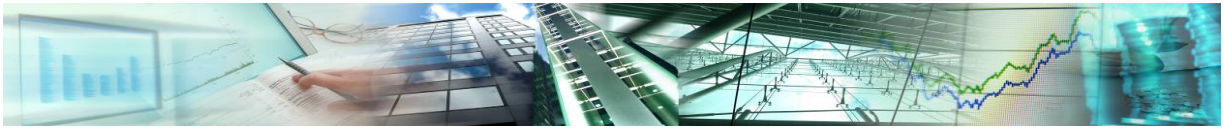
For commercial properties these are assumed to be paid by the tenant at cost, and they are therefore cash-flow and VAT neutral and they are not included in the cash-flow analysis. For residential properties it is also assumed that operating expenses will be passed through to residents in the form of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

### **Cash Reserve**

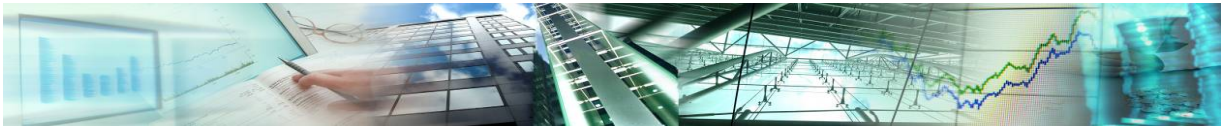
A contingency account against future capital expenditures is a prudent measure. Contributions to this cash reserve have been set depending on the different criteria of each proposed development;

### **Agent's & Brokers Fees**

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

### **Depreciation**

Assessed over 50 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



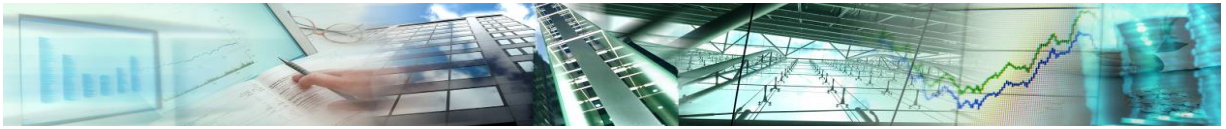
value and usually results in a higher level of depreciation and therefore a higher level of tax deductible costs, potentially increasing income. Where a property is held in a Special Purpose Vehicle (SPV) any sale of the shares will not affect the value of the property on the balance sheet (usually the 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 effects on the level of other taxes payable due to the type of tenure. The standard corporate profit tax rate is currently at 20% and has been included in our financial analysis, i.e. taxes were deducted from the operation profits during the operation period and from capital gains due to sale of assets;

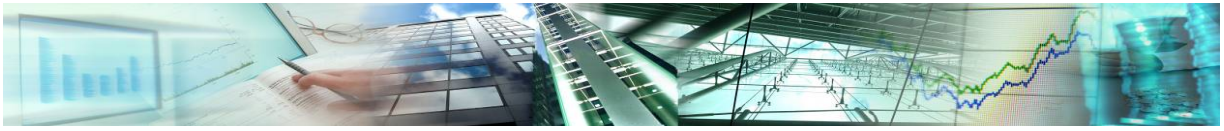
### **Development Assumption**

The current Report and Valuation are based on the assumption that all concepts proposed by the Company are legally possible and the proposed development schemes will be realized by the Company under current conditions and commercial terms. Therefore the Values provided are related to the size and use of the planned project, but are subject to change, the risk for which is taken into account in the discount rates applied.

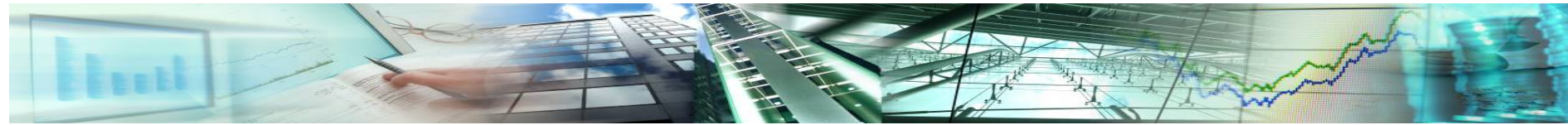


## **SCHEDULE OF VALUES**

A summary table is included below. The appendices contain information for each of the individual properties within the classes of: “Properties *held* as investments”, “Properties *in the course of development*”, and “Properties *held for development*”.



## SUMMARY TABLE



MirLand Development Corporation Assets - Overview of Market Values as at 31st of December 2010



Ref.	City	Property Name and Address	Portfolio Market Value as of 31st of December 2010 (Rounded)	Percentage Owned by MirLand	MirLand Market Value as of 31st of December 2010 (Rounded)	Total sqm of Land	Projected Net Leasable / Saleable Area in sqm upon Completion (excl. Parking)	Market Value per sqm of Projected Net Leasable Area	Discount Rate	Projected Exit Date	Projected Exit Capitalisation Rate for Commercial	Projected Exit Sales Price (Uncompleted Only)	Projected Corporate Profit Tax on Exit Sales Price of Commercial Units (Uncompleted Only) Rounded	Projected Exit Sales Price per sqm of Net Leasable Commercial Area (Uncompleted Only)	Total Outstanding Investment (excl. VAT & Land for commercial properties and incl. VAT for residential projects)	Total Commercial Income as of 2011 (Assuming 100% Occupancy and Fully Completed)
001	Moscow	Hydromashservice, 2-Khutorskaya str., 38A	\$65 500 000	100%	\$65 500 000	12 237	16 896	\$3 877	12,00%	Completed	9,00%	Completed	Completed	Completed	Completed	\$7 021 000
002	Moscow	MAG, 2-Khutorskaya str., 38A	\$59 900 000	100%	\$59 900 000	21 940	19 228	\$3 115	12%/14%	Completed	9,00%	Completed	Completed	Completed	Completed	\$7 282 000
003	Moscow Region	Western Residence, Perkhushkovo, Odintsovsky district	\$90 800 000	100%	\$90 800 000	225 300	65 330	\$1 390	16,00%	2015	Residential	\$181 862 000	Residential	Residential	\$35 500 000	Residential
004	Saratov	Triumph Mall, 167 Zarubina street	\$104 500 000	100%	\$104 500 000	22 000	27 325	\$3 824	12,50%	Completed	10,50%	Completed	Completed	Completed	Completed	\$10 549 659
005	Moscow	Skyscraper, Dmitrovskoe schosse, 1	\$60 200 000	100%	\$60 200 000	9 079	92 000	\$654	16,00%	2015	8,50%	\$72 037 000	\$78 205 000	\$783	\$283 396 399	\$59 599 000
006	Saint Petersburg	Triumph Park, Residential	\$229 200 000	100%	\$229 200 000	326 651	630 900	\$363	20,00%	2014-2019	Residential	\$2 079 502 000	Residential	Residential	\$940 244 000	Residential
007	Saint Petersburg	Triumph Park, Trade Center	\$18 000 000	100%	\$18 000 000	81 663	117 775	\$153	20,50%	2017/2019	9%/9%	\$408 465 000	\$43 377 000	\$3 468	\$180 341 000	\$37 764 000
008	Yaroslavl	Vernissage Mall, Kalinina str.	\$82 400 000	49%	\$40 400 000	120 000	34 056	\$2 420	12,50%	Completed	10,00%	Completed	Completed	Completed	Completed	\$9 000 000
009	Yaroslavl	Phase II	\$8 000 000	49%	\$3 920 000	180 000	55 245	\$145	23,00%	2016	10,50%	\$89 420 000	\$8 152 000	\$1 619	\$42 291 000	\$9 493 000
010	Moscow	Tamiz Building	\$36 300 000	100%	\$36 300 000	4 500	12 971	\$2 799	14,00%	2013	10,00%	\$49 043 000	\$2 544 000	\$3 781	\$1 000 000	\$5 118 000
011	Moscow	Century Buildings	\$94 700 000	51%	\$48 300 000	5 800	21 056	\$4 498	14,00%	Completed	11,00%	Completed	Completed	Completed	Completed	\$8 423 000
012	Kazan	Triumph House	\$8 500 000	100%	\$8 500 000	22 000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
013	Penza	Retail Center	\$2 800 000	100%	\$2 800 000	52 790	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
014	Saratov	Logistics Complex	\$7 100 000	100%	\$7 100 000	260 000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total</b>			<b>\$867 900 000</b>		<b>\$775 400 000</b>							<b>\$2 880 329 000</b>			<b>\$1 482 772 399</b>	