OVERVIEW

Q3 2011

MOSCOW OFFICE MARKET

Moscow

Knight Frank

HIGHLIGHTS

- Total supply of quality office space was 11.7 million sq m by the end of Q3 2011. Growth of supply has been slow. About 620,000 sq m were brought into operation in the first nine months of 2011, of which 40% is Class A. Current uncertainty in the world economy will probably cause a reduction in the number of new projects, despite this year’s increase of credit available to development companies.
- Take-up in the first nine months of 2011 was about 650,000 sq m, which is comparable with the same period of 2010. The take up volumes in 2010 was inflated by delayed demand from the period of 2008-2009, so maintenance of market volumes at last year’s level in 2011 is a positive sign and represents underlying growth as corporate tenants expand their businesses and take on new staff.
- Stock markets and energy prices are experiencing volatility at the present time, but we do not expect any significant decline of office rental rates in the next six months. The current situation on the office market is unlike that in autumn 2008, when there was serious “overheating”. However, there will be some slowdown of market expansion and consequent stabilization of rental rates if current macroeconomic difficulties persist.

MOSCOW OFFICE MARKET OVERVIEW

Key indicators	Class A	Class B+	Class B-
Total stock, million sq m		11,7	
including, million sq m	2,24 (+9%)*	6,39 (+4%)*	3,08 (+4%)*
Commissioned in Q3 2011, thousand sq m		192,3	
including, thousand sq m	51,1	73,7	67,5
Vacancy rate, %	13,3 (- 4 p.p.)*	18,3 (-2 p.p.)*	
Base rental rates**, $ per sq m per annum	600-1 200 (950-1 300***) (+8,5%)*	400-600 (+5,5%)*	260-400
OPEX, $ per sq m per annum	110-210	80 - 120	50-95

** Change from the end of 2010, %*
***Triple net - excluding OPEX and VAT (18%)*
**** Average range of requested rental rates for premises with a premium location*

Source: Knight Frank Research, 2011

Konstantin Losiukov,
Head of Corporate Client Group Office Real Estate Department

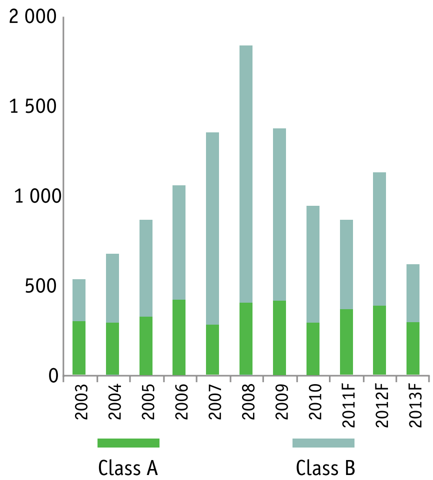
«The Russian office real estate market has continued to develop despite instability in the world economy. This year is setting records for scale of investments in office properties, partly due to foreign investors' activity: their share of total investments in office property development has grown from 10-12% to nearly 40%.
Volumes of demand in Q1-Q3 2011 were comparable with those in the same period last year. The take up in 2010 was fostered by the delayed demand that practically fades out this year.
Rental rates in Q3 stabilized at achieved levels. We do not expect significant changes on the market in the coming six months due to the uncertain situation in the overall economy».

Supply

Total supply of Class A and B office real estate in Moscow at the end of Q3 2011 was 11.7 million sq m. About 620,000 sq m of new quality office space came onto the market in nine months of 2011, of which 40% in Class A. Quarterly growth was 1-2%, representing thelowest rates seen in Moscow for thelast seven years: supply increased at quarterly rates of 5-10% in previous periods. Reduction of new supply is a consequence of slowdown in developers' activity during 2008-2009, as well as uncertainty on the construction market in the Russian capital.

The practice of pre-leases (contracts made before project completion) returned to the market about a year ago and is continuing: about a half of new Class A space has already beenleased under preliminary contracts.

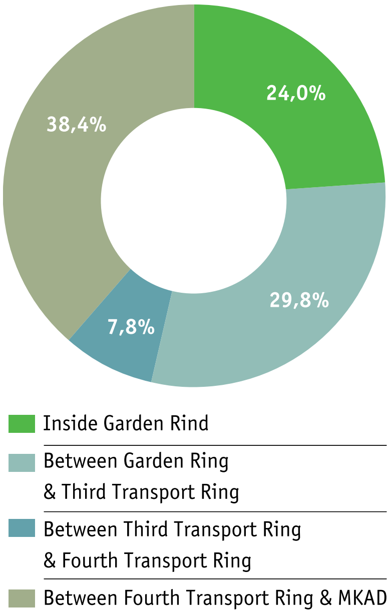
Supply of new office space in 2011 will be at lowest levels for the last 7 years



**The forecast of the terms of projects realization is based on developers' plans*

Source: Knight Frank Research, 2011

New projects commissioned in Q1-Q3 2011 were mainly outside the Third Transport Ring



**including office centers in a close proximity to MKAD but outside it*
Source: Knight Frank Research, 2011

Key office projects in 2011

Source: Knight Frank Research, 2011

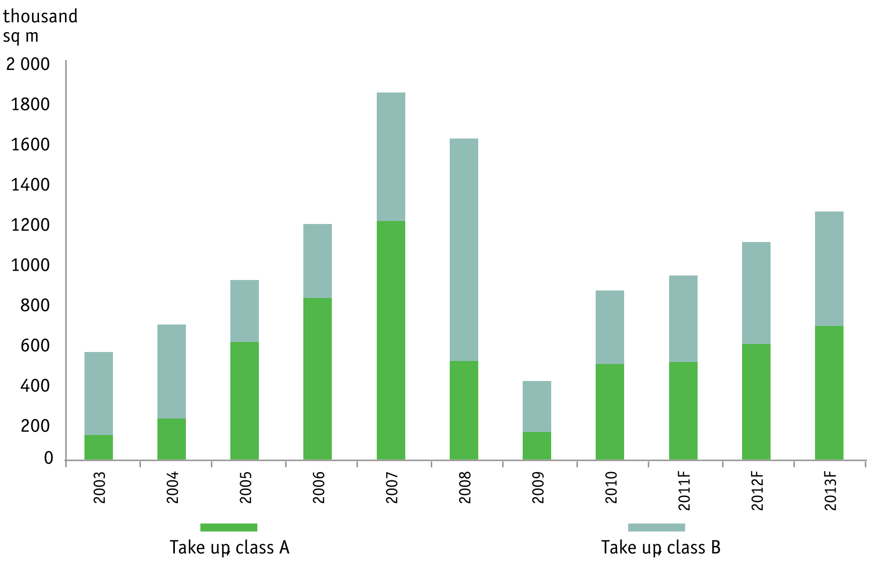
We expect that supply growth rates will remain slow for the next three years. Increase of credit available to development companies in 2011 has given a boost to thelaunch of new projects, but the situation on stock markets in autumn 2011 is forcing investors into a wait-and-see strategy, so that numbers of new projects will be verylimited.

Demand

Take-up in the first nine months of 2011 was relatively high estimated as 650,000 sq m, which is comparable with the same period of 2010. But in 2010 the greater part of volumes represented delayed demand from 2008 and, partly, 2009. Tenant companies expanded their businesses and took on more staff in Q1-Q3 2011 thanks to positive trends in the economy.

The maximumlevel of take-up on the Moscow office market was observed in 2007 (about 1.9 million sq m in Classes A and B), when the number of newlease contracts for quality office premises in Moscow was at recordlevels. Since contracts

We expect levels of demand to grow by 10-15% per annum assuming stabilization of financial markets



Source: Knight Frank Research, 2011

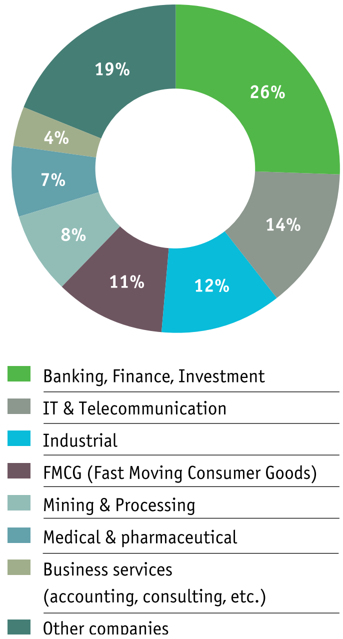
are usually signed for a period of five years, many tenants are deciding in 2011 whether to renew their present contracts or move to new business centres. This is one explanation for the highlevel of demand this year.

The difficult situation in the financial sector this autumn islikely to cause a slowdown in demand growth rates. However, main economic indicators are not showing negative trends as of the start of October, so we do not expect a serious downturn in demand. Also, the present situation on the office market is unlike that in 2008, when there was evident overheating. Fairly slow rates of growth,limitations on construction of new space in the city centre and review of investment contracts make it unlikely that new projects will materialize in anylarge numbers. Companies with 500 staff to accommodate are already hard-pressed to find high-class office space in a ready building close to the city centre.

However, we expect to see a change in the structure of demand. Until recently demand structure has been fairly diverse, but about a third ofleased and bought premises were taken by banks and other financial structures and 20% by companies in mining industries and the energy sector (oil, gas, etc). We expect the situation to change in the near future when main tenants arelikely to be companies in the high-tech and industrial sectors.


Legend, 2, Tsvetnoy blvd

Banks and financial organisations accounted for about one third of transactions in the first nine months of 2011



Source: Knight Frank Research, 2011

Key transactions Q1-Q3 2011. Lease

№ Company	Area, sq m	Address	Property
Lease			
1 Kaspersky Lab	29,840	39 Leningradskoe Hwy	Olimpia Park
2 Sberbank	23,860	8 Novodanilovskaya Emb	Danilovskiy Fort
3 Greenatom	13,500	8 Paveletskaya Emb	AFI na Paveletskoy
4 Morton	11,520	8 Preobrazhenskaya Sq	Preo 8
5 Group M*	10,800	2 Tsvetnoy Blvd	Legenda
6 UEC	10,770	14 Serebryakova Passage	Silver Stone
7 Renaissance Credit*	1,680	Bld 1A, 12 Dvintsev St Bld 1, 8 Presnenskaya Emb	Dvintsev Capital City
8 Schneider Electric	8,680	Bld 1, 12 Dvintsev	Dvintsev
9 Credit Europe Bank*	7,620	12/16 Olimpiyskiy Ave	Diamond Hall
10 MRSK	7,600	4 2nd Yamskaya St	Nevskiy Dom
11 "Bud Zdorov" (Ingosstrakh medical chain)*	7,400	12 Suschevskiy Val	Ocean Plaza

**Knight Frank is a consultant of the deal*
Source: Knight Frank Research, 2011

Key transactions Q1-Q3 2011. Purchase

№	Company	Area, sq m	Address	Property
Purchase by end-user				
1	Rusal	28,120	1 Vasilisy Kozhinoy St	Park Pobedy
2	VTB	circa 16,000	Bld 1, 13 Krasnopresnenskaya Emb	Federation West Tower
3	UniCreditBank	11,680	Bld 1, 18 Andropova Ave	Nagatino i-Land
Investment purchase				
1	UFG Real Estate	circa 40,000	9 Strastnoy Blvd 10 Shabolovka St	Pushkinskiy Dom Concord
2	Promsvyazrealty	37,000	1 Arbat St	Alfa Arbat
3	Aliv-M	12,200	Bld 2, 50A/8 Zemlyanoy Val	Sadko
4	VTB Capital TPG Capital	project share	5 Lesnaya St Bld 29, Lesnaya St	White Square White Gardens

**Knight Frank is a consultant of the deal*

Source: Knight Frank Research, 2011

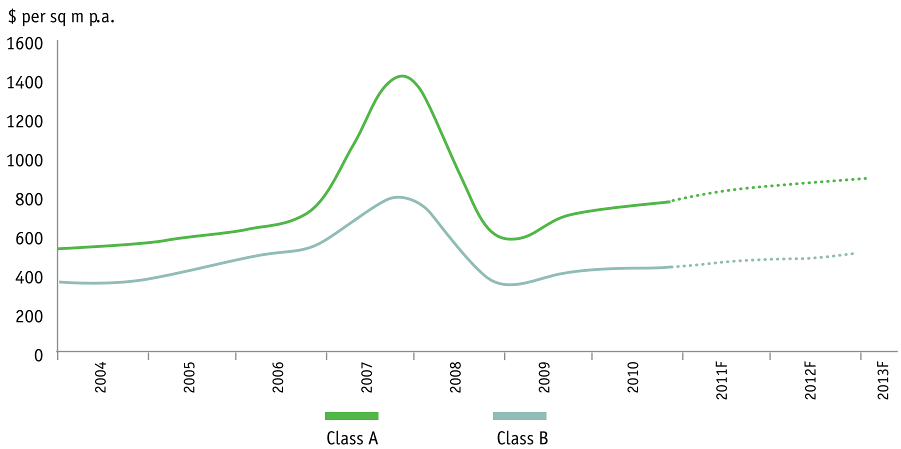
Commercial terms

The average range of Class A office rentlevels in Q3 2011 was $600-1200 per sq m per annum, and the rate for Class B premises was $300-600 per sq m per annum.

Growth of demand andlow rates of new supply led to growth of rates in Classes A and B during the first half of 2011: rents had risen by 7% in Class A and 3% in Class B by the middle of the summer. As previously, projects in the premium segment were the main growth drivers. However, there was almost no change in rentlevels during the third quarter. This was probably due tolow levels of tenant activity in the holiday months (July and August). An additional factor is turbulence on financial markets, which has made some tenants adopt a wait-and-see strategy, postponing their decisions on new office space.

We believe that asking rates will not decline significantly in the next six months due to low volumes of new supply. Demand for office space should atleast remain at presentlevels, assuming that the Russian and international economy avoids serious upsets. In favourable circumstances, rents could see modest growth of 5-7% per annum.

Supply shortages should ensure that rent levels remain fairly steady, despite the current uncertain environment



Source: Knight Frank Research, 2011

GLOSSARY
(THE KEY DEFINITIONS)

Term	Definition
Base Rental Rate	The rental rate amount excluding operational expenses and VAT.
Business Park	A complex of buildings with low-density development and large ground parking. Its usual location is outside the city center with good accessibility to main highways.
Business-centre	A property with high-quality office premises, wide pool of tenants and centralized management system.
Commissioning	The object is commissioned after the state commission and the receipt of Operation Permit.
Developer	A company that conducts the construction of a real estate project, provides financing or attracts financial resources. Also the company provides further implementation of space developed (sale, lease).
Free-rent period	A time period that is free of rental paymentss
Lease Agreement	An agreement, which is concluded between a tenant and a landlord and gives a right to the tenant to temporarily possess or use the property for the certain charge called a rental fee.
LOI (Letter of Intention)	Preliminary agreement between a landlord and a tenant that confirms the intention of the parties to conclude a lease agreement. It contains preliminary terms that will be included to the lease agreement.
Loss factor	$(1-\frac{useable\_area}{rentable\_area})*100\%$
Multifunctional complex	A property with three or more real estate components of different functions.
OPEX (Operational Expenses)	Money expenditures allocated for the operation and maintenance of the property. They usually include property taxes, insurance payments, management and maintenance costs of property, utilities.
Pre-lease agreement	A lease agreement that is concluded during the construction phase of the building.
Rentable Area	Area available for the exclusive use of the tenant, for which the tenant will pay rent. Includes common areas such as lobbies, restrooms and hallways.
Rental Rate	The amount of money paid by the tenant for the rental of office space (per sq m per annum).
Sublease	A lease in which the original tenant (lessee) sublets all or part of its premises to another tenant (subtenant) while still retaining a leasehold interest in the property.
Take-up	The amount of units occupied during a particular time period in a given market.
Total Area	Total area of a building measured on the outer sides of exterior walls.
Total Stock	All occupied and vacant Class A, B+ and B- office space for a specific time period.
Useable Area	It is the tenant's rentable area less certain common areas shared by all tenants of the office building (such as corridors, storage facilities and bathrooms). It is applied for the location of the workplaces, equipment and furniture. The area is measured on the interior sides of building walls including the measurement of structural columns and architectural projections. It doesn't include common areas.
Vacancy	The number of units or space that is vacant and available for occupancy at a particular time period within a given market (usually expressed as a vacancy rate).
Vacancy rate	The percentage of total office stock that is vacant and available for occupancy at a particular time period within a given market. It is calculated by dividing vacant space by total space.

OVERVIEW

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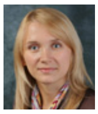

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We offer the full range of consulting services not only for developers and owners, but also for real estate users; both legal entities and individuals. Now, the company's staff consists of more than 330 employees.

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