STATEMENT

Evaluation of the fair value of the investment properties owned by Sponda PLC
Moscow, Moscow Region and Saint Petersburg, Russia

Sponda Public Limited Company

Date of Valuation: December 31, 2014

CBRE

EVALUATION OF THE FAIR VALUE OF THE INVESTMENT PROPERTIES

Our Assignment

In accordance with the engagement contract #14/10-91CV dated October 15, 2014 between Sponda Plc (hereinafter referred to as "the Client", "the Company" or "Sponda") and CB Richard Ellis LLC, we have reviewed the property valuations carried out internally by Sponda.

CBRE has been asked to review the internal valuation of the Sponda real estate Portfolio in accordance with RICS Valuation – Professional Standards (January 2014) (the "Standards"). Our review of the internal valuation of the Portfolio was conducted for accounting purposes. It may not be reproduced or used for any purpose other than the purpose stated above without the prior written consent of *CB Richard Ellis LLC* in each specific instance.

The Portfolio covered in our analysis consists of 6 (six) operational properties held for investment purposes; the assets are described in Appendix 1 of this Statement. Our review covered the properties which we believe are owned by the Client or its subsidiaries. CBRE made relevant enquiries in order to provide our opinion of the Fair Value of the Property Portfolio as at December 31, 2014.

We confirm that we provide this advice as external valuers and we are not aware of any conflict of interest or potential conflict of interest arising in carrying out this instruction.

Approach

In accordance with the Standards, our valuations have been prepared on the basis of Fair Value. There are two definitions of Fair Value defined in the Standards:

- "The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties" (definition adopted by the International Valuation Standards Council - IVSC);
- "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date" (definition adopted by the International Accounting Standards Board – IASB).

According to Point 2 of the Comments in VS 3.5, "In applying the IVS definition, reference should be made to paragraphs 39–43 of the IVS Framework". According to paragraph 40 of the IVS Framework, "The International Valuation Standards Board (IVSB) considers that the definitions of fair value in IFRS are generally consistent with market value".

We found the general valuation methodology used by the Company to be appropriate and based our valuation on the Income Approach, adopting a 10-year discounted cash flow method to arrive at a Net Present Value (an exception was made for Meliora Place office centre). We amended some of the assumptions on market rental rates used by the Company based on our research of current rental rates, incorporating these into the discounted cash flow model upon expiry of current leases taking into account the cyclical nature of the real estate market and the economy. Taking into account the size and the format of the Meliora Place office centre we are of the opinion that the Sale Comparison approach is the most appropriate approach to estimate the fair value of the Property.

We have used gross floor areas as shown in the title documents. This valuation was based on the assumption that the Subject Properties have clear title and are free from any actual or pending encumbrances, disputes, claims etc.

We have relied upon the rentable areas, tenancy schedules, current rental rates and operating expenses as provided to us by the Client. We have not made check measurements to verify any areas and have assumed that all areas provided for the Properties and site areas are complete and correct.

The office centre Bakhrushina House and the shopping centre Solnechniy I were inspected on June 4th, 2014, the shopping centre Solnechniy II – on June 5th, 2014. The office centre Ducat II was inspected on November 14th, 2013, the office centre Meliora Place (Ancor) – on December 5th, 2012, the warehouse complex Adastra – on December 6th, 2012. We have assumed that no significant changes that could affect the value of the Properties have occurred in the period between the inspection and valuation dates.

We have not undertaken structural surveys or tested any of the services. At the time of our inspection, the Properties generally appeared to be in a reasonable state of repair and decoration commensurate with age and use. We have not been provided with a copy of any building surveys or structural reports and have assumed that there are no defects that could have an impact on value.

For the avoidance of doubt, we have not undertaken any environmental audits or other environmental investigations or soil surveys at the Properties that may draw attention to the existence of any contamination or the possibility of any such contamination. We have not carried out any investigation into past or present uses of the Properties nor of any neighbouring land to establish whether there is any potential for contamination from these uses or sites adjacent to the subject Properties, and have therefore assumed that none exists.

CB Richard Ellis LLC will not assume any responsibility or liability for losses occurred to Sponda Plc, or other parties, as a result of the circulation, publication, reproduction or use of this Statement contrary to the provisions stated. We wish to emphasise that our liability rests with Sponda Plc and that we are under no obligation, contractual or otherwise, to any other parties.

Market Conditions

We would draw your attention to the fact that the current volatility and uncertainty in the Russian economy and financial market has created a significant degree of turbulence in commercial real estate market. Without stable market conditions, limited liquidity in the market and transaction evidence, it is very difficult to quantify with any degree of certainty the fair value of real estate assets. Whilst we believe our valuation is a reasonable assessment of the value of the individual assets it may also be difficult to achieve a sale of some assets in the short-term. We would therefore recommend that the situation and the valuations are kept under regular review, and that specific marketing advice is obtained should you wish to effect a disposal.

MARKET COMMENTARY

Macroeconomic Overview

External sector and rouble exchange rate

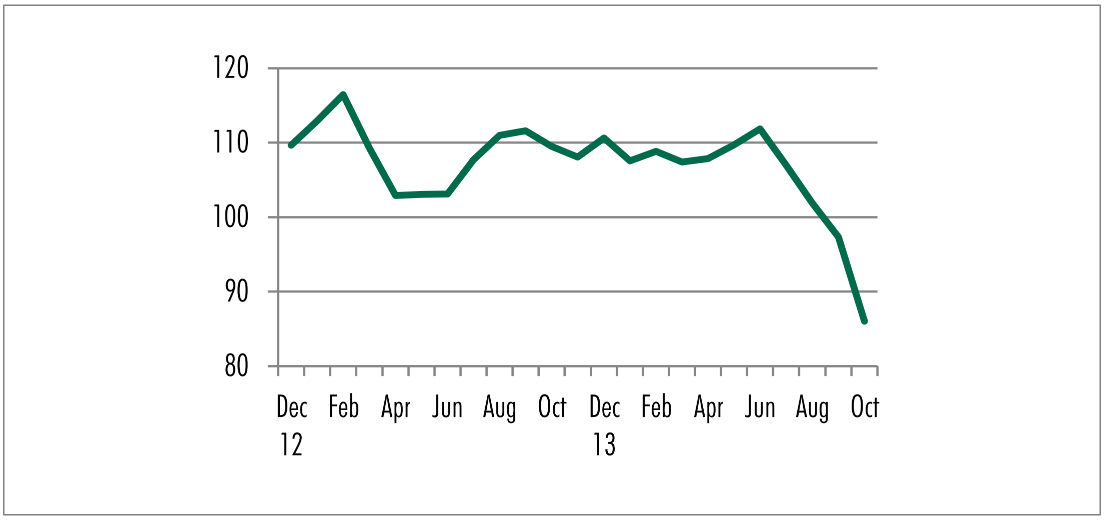
2 key events influencing the prospects for economic growth and the sustainability of the Rouble exchange rate occurred in Q3 2014.

The first was the sanctions against selected Russian banks. This decision significantly limited the access of the Russian banking system to international capital markets. Specifically, it means that opportunities to refinance private sector currency debts narrowed substantially.

In the next 9 months Russian companies will have to repay USD 102.5 bn of debt and USD 19.7 bn of interest payments. Major sources of currency for these payments include the current account surplus, Asian financial markets, and international reserves of the Central Bank.

A strong decline in oil prices was the second very important change. The average monthly price of Brent fell in Q3 from USD 111.9 in June to USD 97.3 per barrel in September, or by 13%. As of mid-October, the Brent price declined further to USD 86 per barrel. This level is perceived as uncomfortable from the point of view of the prospects for economic growth and fiscal revenues. A substantial part of budget revenues comes from the oil and gas sector.

Graph 1. Monthly average price, Brent, USD per barrel



Source: IndexMundi

In Q4 2014 Russian economy remained under the strong influence of external factors. Oil prices continued declining, having reached USD 60 / barrel.

The negative impact of these 2 changes contributed to sharp Rouble depreciation in Q3. In July and August the Rouble lost 9.8% against USD. Further decline in September was fuelled by the oil price having dropped below USD 100/barrel. In that month the

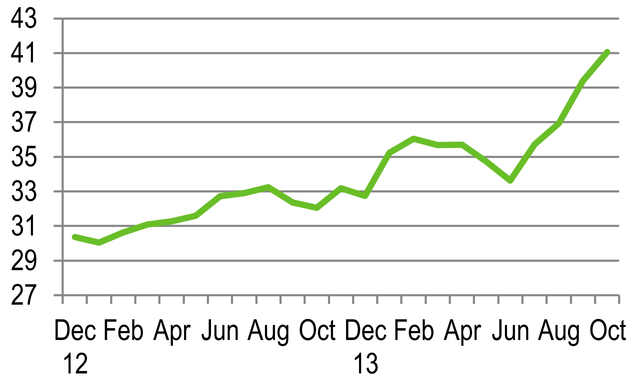
Rouble lost an additional 6.7%. All in all, the cumulative depreciation of the Rouble against the USD since the beginning of Q3 has reached 22%. This was driven by really extraordinary events.

Key questions for the majority of economic, financial and business organizations now include the following:

- When will the high volatility of the exchange rate end?
- At what exchange rate will this happen?

To some extent the presence of these questions on the agenda is explained by the Central Bank's FX policy.

Graph 2. RUR/USD, end of period, Roubles per 1 USD



Source: Bank of Russia

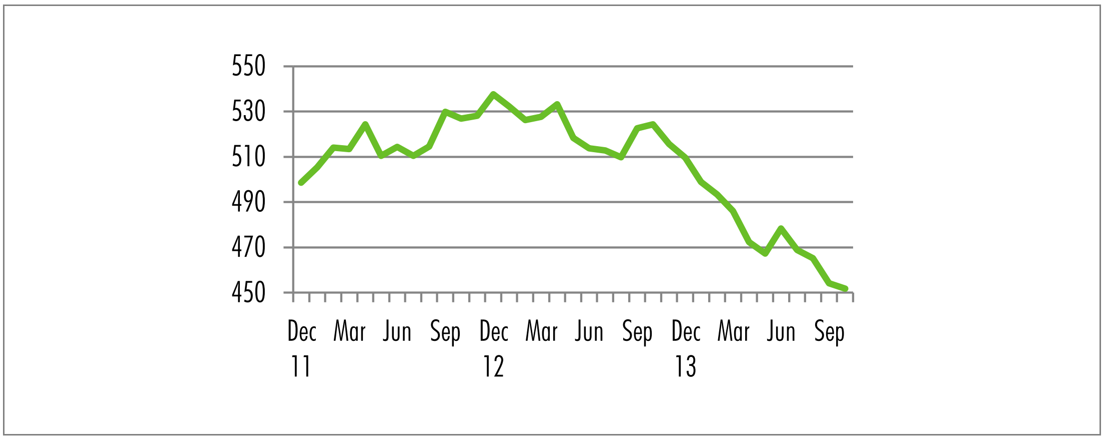
Central Bank decision to switch to the regime of floating exchange rate incentivised speculative attack on Rouble. As a result of this attack, national currency depreciated to 60 RUR/USD, including panic peak at 80 RUR/USD. As of December 18th, cumulative depreciation exceeded 85% compared to the early 2014.

In this regard, it should be taken into account that there are also some risks associated with the increasingly popular trend of using Rouble-based rental rates. This approach might result in losses if the scenario of a mid-term strengthening of the Rouble finally comes about.

In this situation a "currency corridor" mechanism might be used to hedge risks.

The CBR's international reserves by the end of the first ten days of October amounted to USD 451.7 bn compared to USD 509.6 bn in December 2013.

Graph 3. International reserves, USD bn.



Source: Bank of Russia

During the crisis of 2008-2009, international reserves fell from USD 569 bn in the middle of 2008 to USD 383.8 bn at the end of Q1 2009.

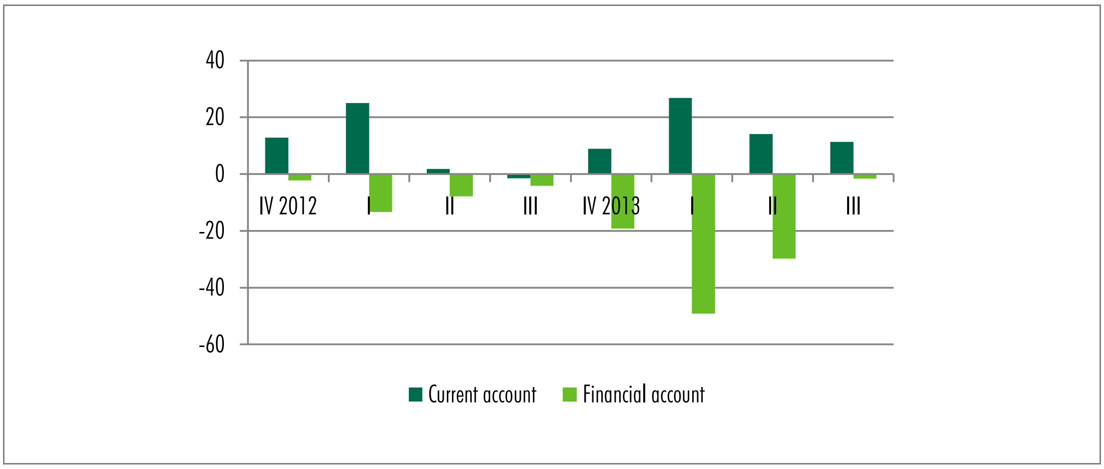
Over the next 9 months, Russian companies and banks are scheduled to repay debt and interest totalling USD 122.2 bn. In the following 12 months, this sum is estimated at USD 104.8 bn. Thus, in early October, international reserves were 2 times larger than all external debt related repayments in the next 21 months.

In addition, one should take into account the significant current account surplus, which also might be used to finance debt repayments.

According to the preliminary CBR estimates, the Q3 current account surplus amounted to USD 11.4 bn compared to a deficit of USD 0.7 bn for the same period of 2013. A reduction in imports was the main contributor to this positive change.

As a result, in January–September 2014, the cumulative current account surplus reached USD 52.3 bn, compared to USD 26.1 bn in the same period of 2013.

Graph 4. Balance of payments indicators, USD bn.



Source: Bank of Russia

Trends in the financial account are even more intriguing. After deficits of USD 49.1 bn in Q1 and USD 29.8 bn in Q2, in Q3 the deficit was as low as 1.6 bn. This indicates that banks have started selling assets abroad and using them to repay their liabilities. The real sector of the economy is not that active in this process and has continued to invest abroad.

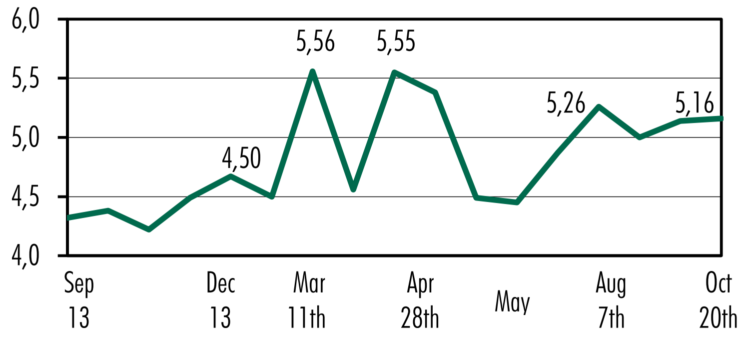
Lending conditions

Another wave of escalation of geopolitical problems occurred in Q3 and led to a tightening of sanctions against the Russian financial sector. As a result, the scenario expected by market players of a softening of lending conditions was cancelled.

On the contrary, the trend towards further tightening continued. Banks became more conservative in their decisions to finance new development projects. The positive side of this situation implies better opportunities in the future to restore the market balance between supply and demand, which is currently strongly skewed towards supply.

Some stabilization of YTMs on Russian Eurobonds in Q2 was followed by further growth in Q3, with the average yield to maturity having exceeded the 5% mark.

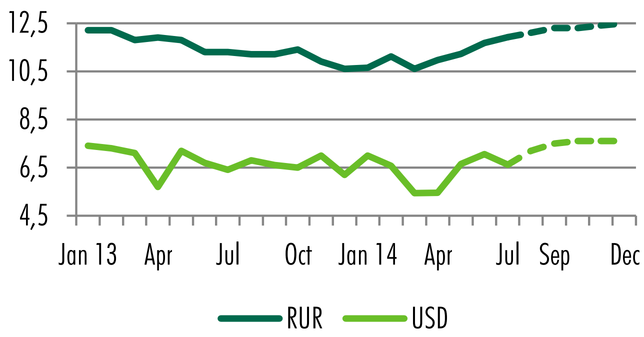
Graph 5. Euro-Cbonds Sovereign Russia, YTM, %



Source: Cbonds

Interest rates on loans to non-financial organizations on a term of 1 year increased in Q2 to reflect increased macroeconomic risks.

Graph 6. Weighted average interest rates, loans for non-financial sector, term > 1 year, %



Source: Bank of Russia

In May-July average Rouble interest rates increased by 90 b.p. up to 11.9%. These rates are expected to continue to increase, at least until the end of 2014. An increase in the key rate of the CBR could generate an additional stimulus to this process.

Lending rates in USD increased from 5.5% in April to 6.6% in July, having returned back to the levels of late 2013 after an unexpected decline in March and April.

Given the current limited access of Russian companies to international capital markets, there is a good chance of further increases in interest rates. From another point of view, given the current high uncertainty over the Rouble exchange rate, interest in debts denominated in foreign currencies might decrease.

Lending activity continued on its slowdown trend, which started in Q2 2014.

According to CBR statistics, in May–July, RUR 547.6 bn of new loans were granted to the construction sector. This is 13.2% less than the value of new loans granted in the same period of 2013. In January–April 2014 the decline was lower at 3.6%.

A similar situation is apparent in the "Operations with real estate, leasing and other RE services" segment. In May–July 2014 newly granted loans amounted to RUR 536.8 bn, which is 6.5% below that in 2013 (a reduction of 5.7% was seen in January-April 2014 compared to the previous year).

Real sector

By the end of the third week of October, there had been no announcements regarding preliminary estimates for GDP growth in Q3. According to the Forecast of the social and economic development of the Russian Federation in 2015 and in the planned period of 2016-2017 (published at the end of September 2014), Q3 GDP growth was expected at 0.2%. The situation of Q4 2014 did not generate immediate impact on GDP. This indicator is expected to increase by 0,6% in 2014.

Graph 7. GDP growth, Russia, % , Q-o-Q

Source: Rosstat, MED

Preliminary data from Rosstat indicated that industrial production in September 2014 increased by 2.8% compared with September 2013. Growth in January-September amounted to 1.5%. Agriculture also showed very positive figures: 7.7% growth compared to January-September 2013.

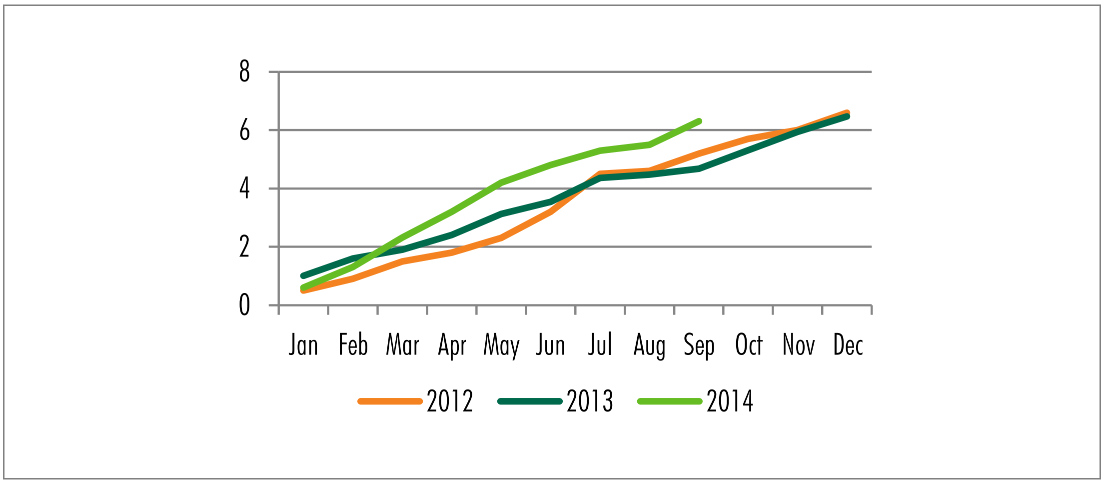
Growth in Investment did not manage to recover: there was a 2.5% decline compared to January-September 2013. Net exports saw noticeable growth.

All in all, these statistics contribute to the expectations of higher than expected GDP growth in Q3.

Nevertheless, in general, GDP growth is continuing its downward trend. This increases the probability that the 3 year downward trend will finally result in recession. However, the economic authorities, as usual, are rather positive, expecting GDP growth in 2015 of at least 1.2%.

In January–September 2014, consumer prices increased by 6.3% compared to December 2013. In 2014 inflation might exceed 10%.

Graph 8. Inflation (CPI), %, cumulative



Source: Bank of Russia

Given the speed and size of the Rouble depreciation, as well as the growth in prices in the first half of the month, inflation in October might exceed 0.8%. Therefore the inflation rate in 2014 might be even higher than 8%.

Q3 therefore explicitly indicated the priorities of CBR monetary policy.

Nevertheless, the higher inflation seen in the coming months, the more chances that the CBR will finally undertake the necessary steps.

Conclusions and Forecasts

- In the short term, the Rouble is expected to remain susceptible to ongoing geopolitical and oil price news and might continue to weak.
- If there is good news regarding the geopolitical situation or oil prices, a fast reverse movement might occur with the Rouble.
- During the current high uncertainty, we recommend using a "currency corridor" mechanism in order to hedge the risks of both landlords and tenants.
- Growth rates of macroeconomic activity indicators are declining. This trend increases the probability of recession.
- Further tightening of lending conditions is expected.

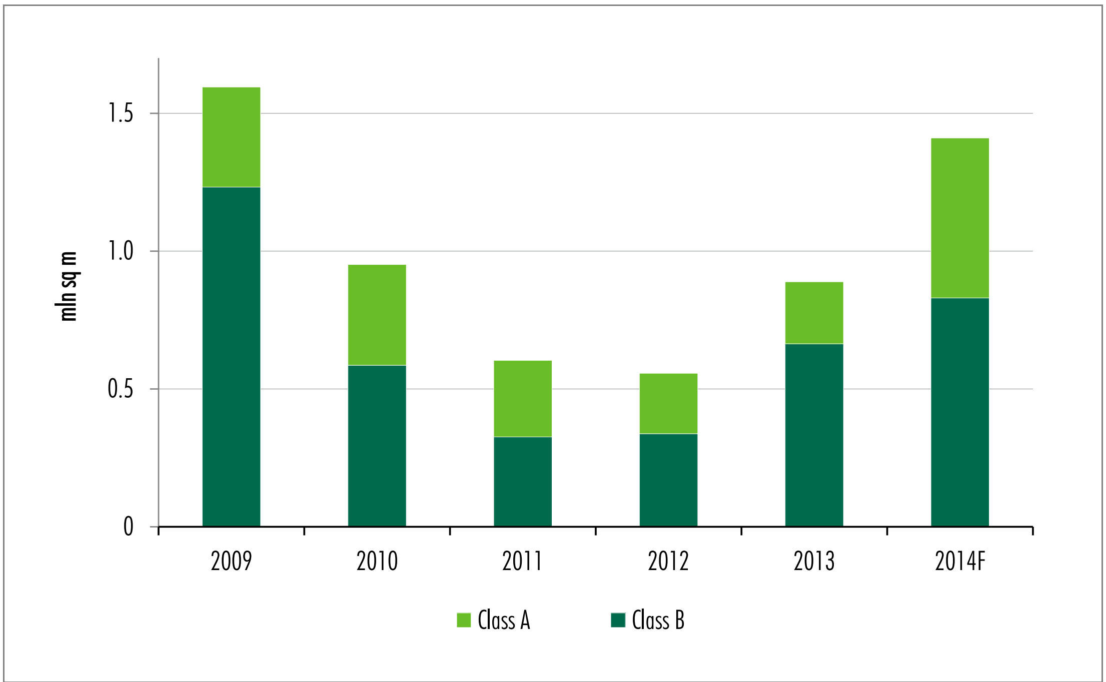
- In this situation developers are recommended to concentrate on the optimization of existing schemes, rather than on the start of new projects.

Moscow Office Market Overview

Supply

In Q3 2014, a total of 496,000 sq m of office space was completed, of which Class A accounted for 53% (263,600 sq m), and Class B 47% (232,400 sq m). Completions during the first three quarters reached 1.03 mln sq m, of which 552,900 sq m (54%) was Class A. This is the first time ever that such a large amount of Class A office space has entered the market in this time span. This figure is equivalent to 21% of the existing Class A stock at the beginning of 2014.

Graph 9. Annual Supply by Class, million sq m
2009 – 2014F



Source: CBRE

It should be noted that Comcity office park (office area – 107,500 sq m) accounts for a significant share of Class A delivery. Other Class A business centres commissioned in Q3 2014 include:

- Lotos (office area 88,400 sq m);
- Vodny (52,300 sq m);
- Domion Tower (9,500 sq m);
- Romanov Dvor III (5,800 sq m). This is the only Class A Prime business centre completed after the beginning of 2013 (when the White Gardens office complex was completed).

As a result of the delivery in the first three quarters of 2014, the total office stock in

Moscow stands at 15 mln sq m, of which Class A represents 21%, or 3.25 mln sq m.

Major Office Buildings Completed in Q3 2014

Property name	Address	Office area, sq m
Comcity Office Park Alpha	2 km Kievskoe Highway	107,500
Lotos	21/2 Odesskaya Street	88,400
Vereiskaya Plaza III	29 Vereiskaya Street, bld. 134	76,000
Savelovsky City	1 Skladochnaya Street	56,700
Vodny	5 Golovinskoe Highway	52,300
Aerodom	37 Leningradsky Avenue, bld. 7	26,700
Krasnoselskiy BC	3 Krasnoselskaya Verkhnaya Street	17,300
Dominion Tower	5 Sharikopodshipnikovskaya Street, bld. 1	9,500
Romanov Dvor III	4 Romanov Lane	5,800

Source: CBRE

Class A delivery

The significant share of Class A space in the new supply reveals the upward trend in the qualitative development of the Moscow office market; tenants are tending to require more from their offices, and developers in their turn are ready to fulfil the requirements. In the entire history of the market, the share of Class A has never exceeded 36% of new supply. On average it has ranged from 20% to 30% of the total. In 2014, taking into account projects announced for Q4, the share of Class A may reach 53%.

Office Projects to Be Completed in Q4 2014

Property name	Address	Office area, sq m
OKO	Presnenskaya Embankment plot #16	110,000
K2 Buildings A and B	Kaluzhskoe Highway	36,000
AERO City	Kurkinskoe Highway	32,000
Bolshevik Phase I	15 Leningradsky Avenue	28,000
Krasnaya Roza Demidov	11 Timura Frunze Street	15,900

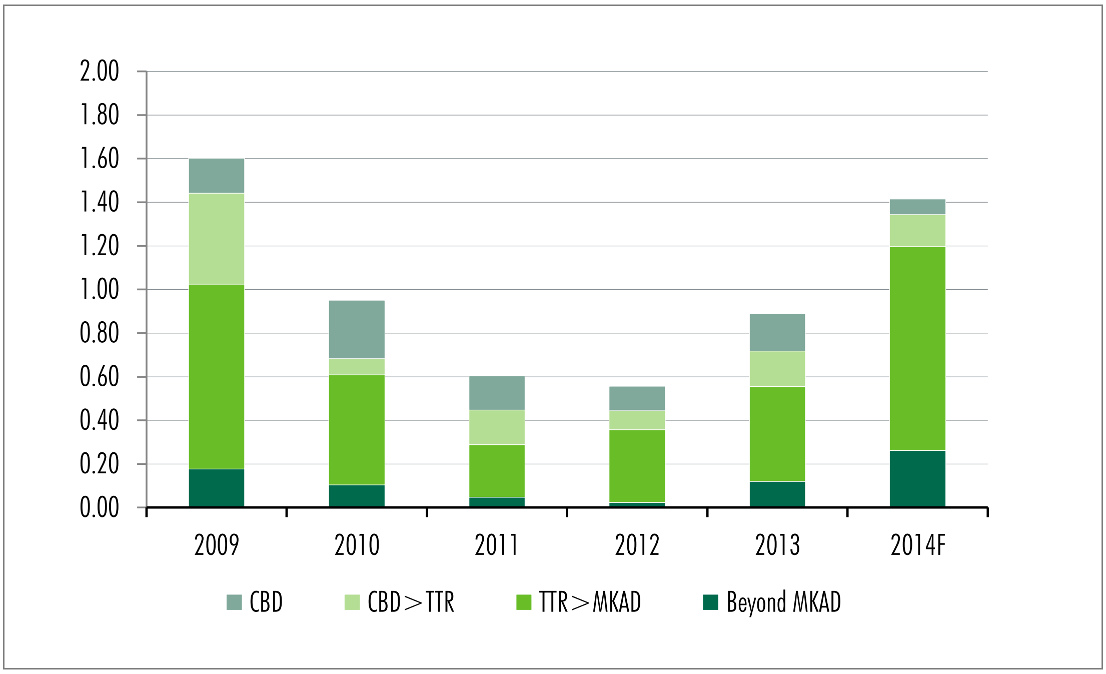
Source: CBRE

New supply by geographic submarket

The largest amount of new supply was delivered in the area outside the TTR (63%). However, it should be noted that this level was reached due to the delivery of seven large business complexes (some are listed above).

This is followed by the zone outside the MKAD (107,500 sq m or 22%), the zone between the Garden Ring (GR) and the TTR (61,400 sq m or 12%) and the Central Business District (CBD; geographically the CBD is defined as the area inside the GR plus the area along 1st Tverskaya-Yamskaya Street, ending at Belorussky railway station) (13,100 sq m or 3%).

Graph 10. New Supply by Geographic Submarket, million sq m 2009 – 2014F



Source: CBRE

Forecast

390,000 sq m of office space is expected to be delivered in Q4, 190,000 sq m of which is Class A. Total new delivery in 2014 is therefore expected to be 1.4 mln sq m, including 742,000 sq m of Class A.

Demand and Take-up

Despite the fact that Q3 is traditionally characterised by lower business activity due to the summer holiday season, the results for the quarter show much more promise than Q2: take-up increased by 175%. Of course, such a significant upsurge is explained by the very low take-up in Q2.

In Q3, take-up reached 231,800 sq m, Class A accounting for 45,900 sq m, and Class B 185,900 sq m (80%). Thus for the first three quarters of 2014, total Moscow office market take-up equalled 530,000 sq m, which is 37% lower than in the same period of 2013. Take-up is not expected to exceed 800,000 sq m for the whole year.

The recovery of the market in Q3 is also evidenced by the level of net absorption (the difference between occupied stock at the end and beginning of the periods), which has turned from being negative at the end of Q2 (-57,000 sq m) to a positive level at the end of Q3 (244,000 sq m).

In general total take-up in Q3 is similar to the same period of 2011-2013 – 260,900 sq m in 2011, 203,000 sq m in 2012, and 291,500 sq m in 2013. Market players already have an idea of what to expect in the short term.

The tenants' market is gaining in strength. Potential tenants can currently count on the most attractive commercial terms and developers in their turn in most cases are ready to make concessions to retain/attract tenants. Clearly there are certain exceptions – the owners of buildings with the lowest vacancy rates.

It is worth noting that lease extensions accounted for 17% (or 49,700 sq m) of total take-up in Q3. This is within its usual range (15,000 sq m to 50,000 sq m).

Class A share of total take-up

Class A take-up equalled 45,900 sq m (20% of the total), which is 15,000 sq m higher than the equivalent figure in Q2. As a rule, Class A tends to be least resilient to a crisis, the uncertainty making it harder for tenants to decide on changing their offices, so they prefer to extend existing lease agreements. Owners of Class A space are generally less flexible in respect of commercial terms than owners of Class B. For example, lease lengths are longer, and rental rates are denominated in dollars rather than roubles.

The most significant transaction in Q3 is the international company Oracle's leasing of 6,300 sq m at Comcity. This transaction spotlights current decentralisation and cost saving trends. It should be mentioned that this is the only Class A leasing transaction outside the MKAD in Q3.

Curiously enough, about 32% of total Class A take-up was in the CBD. The increased interest in space in the city centre was typical for example of the years 2009-2010 during the financial crisis. Nevertheless a shift towards centralisation is not expected within the current market environment. A few deals were closed in Moscow-City totalling 5,700 sq m. Around 29% of transactions were within the area between the TTR and the MKAD.

A large percentage of Class A offices were leased by Russian companies – 27,000 sq m, vs 18,900 sq m for international companies.

Class B share of total take-up

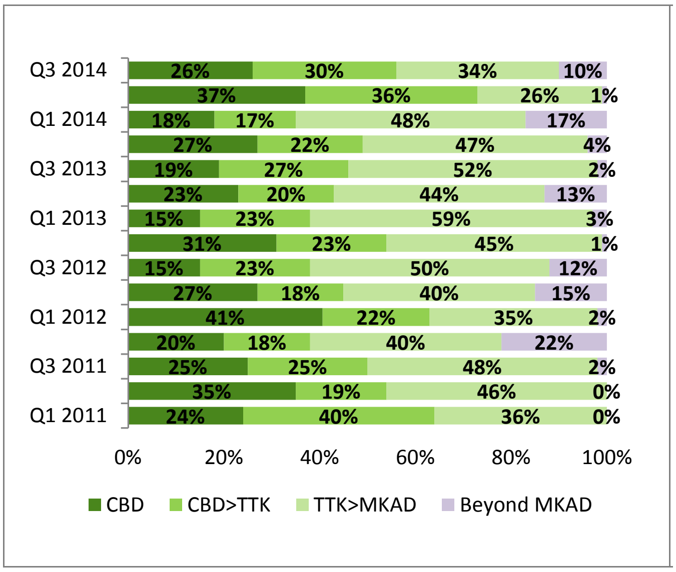
Class B office space traditionally accounts for the larger part of total take-up, and reached 80% (185,900 sq m) in Q3. The majority of deals were closed by Russian companies, 166,900 sq m, compared with 19,000 sq m by international companies. The largest deal was the REN TV lease of 10,300 sq m in an office building on Partiyny Lane. The second largest was the Gazprom Media lease in Rochdel Centre (7,500 sq m).

In Q3 international companies accounted for 16% of total take-up, and Russian companies 84%, just as in Q1; in Q2 these percentages were 25% and 75% respectively.

Take-up by geographic submarket

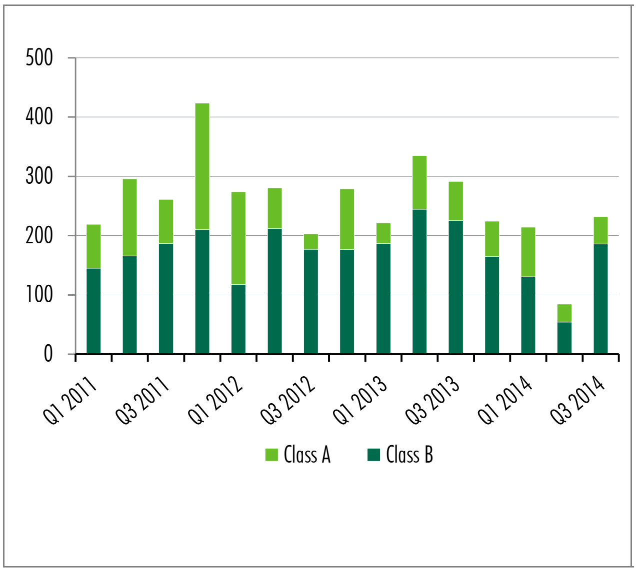
As in Q2, Q3 deals were primarily inside the TTR (56%), including 26% inside the CBD and 30% between the GR and the TTR, followed by the area between the TTR and the MKAD (34%) and the area outside the MKAD (10%).

Graph 11. Annual Take-up by Geographic Submarket Q1 2011 – Q3 2014



Source: CBRE

Graph 12. Take-up by Class, thousand sq m Q1 2010 – Q3 2013



Source: CBRE

Office sizes in highest demand

A distinctive feature of demand in Q3 was the number of large new lease deals of more than 4,000 sq m, i.e. 8 transactions. So many large transactions suggests the following: firstly, tenants are consolidating their office space and, secondly, this is a good time for obtaining better commercial terms in a falling market, leading to the optimisation of business processes and rental costs.

Office units of less than 1,000 sq m remain most popular among tenants, accounting for 74% of the total number of lease transactions. However, they represent only 35% of the total area of new lease transactions. The most popular office size is still space of less than 300 sq m (32%); units from 301 to 500 sq m accounted for 14% of the total number of transactions, from 501 to 1,000 sq m for 27%, from 1,001 sq m to 3,000 sq m for 20% (31% of the total new lease transactions by area), and 3,001 sq m and above for 6% (31% of the total by area). It should be mentioned that it is the first time in a long time (since the beginning of 2013) that there were so many deals larger than 1,000 sq m.

The Main Executed Deals in Q3 2013

Company	Office area, sq m	Property	Address	Class
Oracle	6,400	Comcity	2 km Kievskoe Highway	A
Teva	4,900	Wall Street	35, Valovaya Street	A
Emerson	4,700	Kvartal-City BC	53, Dubiniskaya Street	B+
Consyst - os	3,300	Diagonal House	77, Butyrskaya Street	B+
EAE Consult	2,600	Slobodskoy BC	26, Leninskaya Sloboda Street	B+
Norilsk Nikel	2,100	Naberezhnaya Tower	10, Presnenskaya Embankment	A

Company	Office area, sq m	Property	Address	Class
DVMP	1,600	Butik-office	7, Butikovsky Lane	A

Source: CBRE

Sale deals

Sale transactions (for owner occupation) totalled 50,700 sq m which is 5 times higher than the equivalent figure in Q2 2014 (9,000 sq m) and 10,000 sq m higher than the equivalent figures in Q1 2014 and Q4 2013 (40,000 sq m and 42,000 sq m respectively).

Large sale deals included the following:

- The Mosoblgaz acquisition of one building in Pallau-RB (total area – 9,150 sq m);
- The Sogaz acquisition of an office building on Ulansky Lane (total area – 16,300 sq m).

Sale deals on average do not exceed 1,000 sq m; space is mainly in demand in such office centres as Vodny, Lotos, and G10.

Vacancy Rates

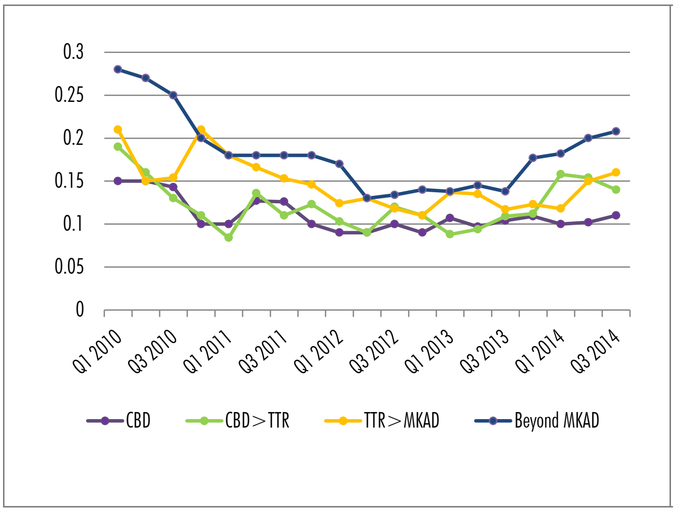
The total vacancy rate increased minimally from 14.5% in Q2 to 15.1% in Q3 2014.

There were no significant increases either in the Class A and B segments, or in any of the city zones because of the following factors:

- recovery of demand;
- some of the commissioned space was already leased on preliminary lease agreements before completion.

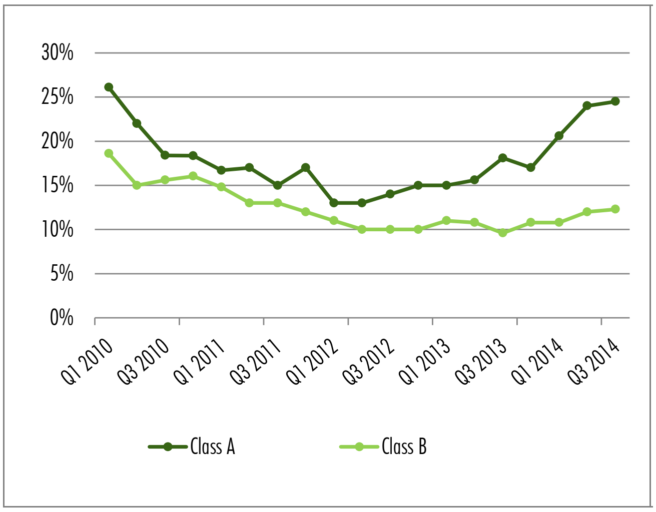
Thus, the vacancy rate in Class A went up from 24% to 24.5%, and in Class B from 12% to 12.3%.

Graph 13. Vacancy by Geographic Submarket, %
Q2 2010 – Q3 2014



Source: CBRE

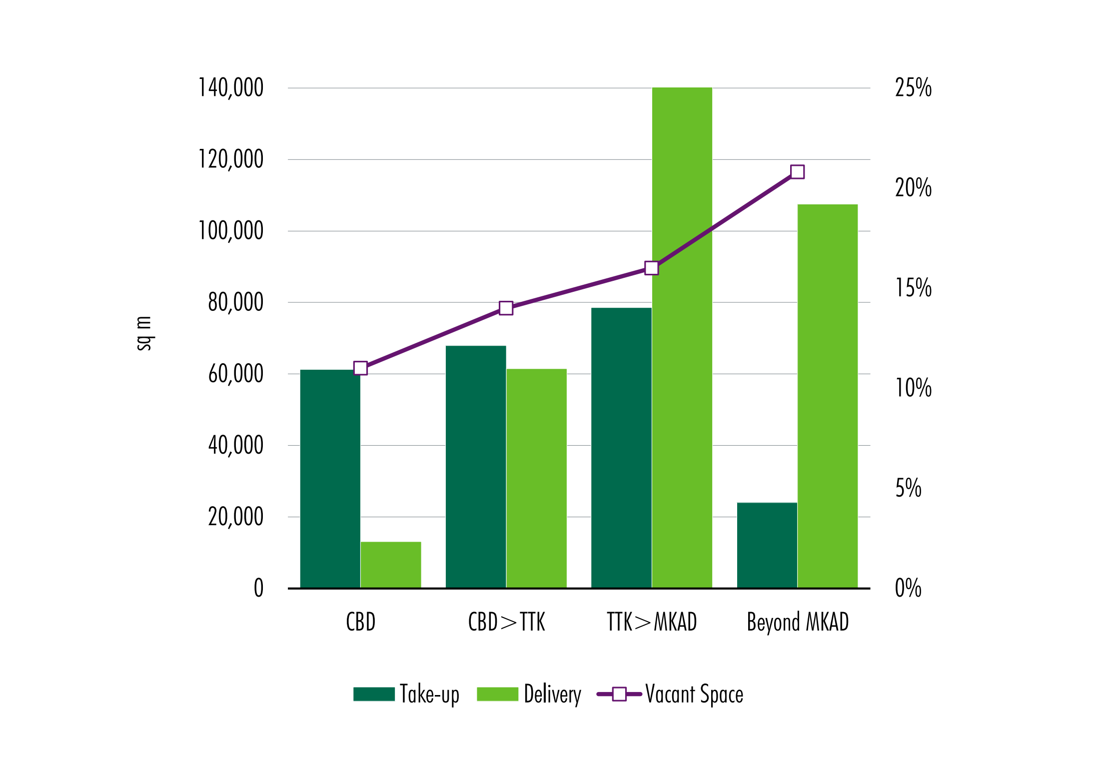
Graph 14. Vacancy Rate by Class, %
Q1 2010 – Q3 2014



Source: CBRE

Geographically, the vacancy rate rose in the CBD from 10.2% to 11%, in the area between the TTR and the MKAD from 15% to 16%, and outside the MKAD from 20% to 20.8%. A reduction in the vacancy rate from 15.4% to 14% was observed in the area between the GR and the TTR. In Moscow-City, vacancy showed no change (34%).

Graph 15. Supply, Take-up and Vacancy by Geographic Submarket Q3 2014



Source: CBRE

Rental Rates

Landlords were more willing to offer individual business terms in Q3 2014 than in H1 2014. They are now prepared to make more significant concessions in negotiations with tenants, namely: extension of rental holidays, including fit-out at their expense, and fixing the dollar exchange rate in lease agreements. It is worth mentioning however that the latter is the exception rather than the rule. Nevertheless, tenants are increasingly raising the issue in negotiations.

Asking rates in Q3 2014 generally remained approximately at the level of the end of H1 2014: \$1,050–\$1,200 for Class A Prime, \$650–\$750 for Class A and \$400–\$450 for Class B. In Q4 2014 the asking rental rates decreased.

CBRE

Conclusions

- A total of 496,000 sq m was delivered in Q3 2014. This is a record-breaking amount of new supply, comparable to that of 2008;
- In comparison with Q2 2014, take-up increased by 175% to 231,000 sq m;
- Following the trend seen in Q2, most of the take-up is concentrated in the central part of the city, inside the Third Transport Ring (56%);
- The vacancy rate increased from 14.5% to 15.1%;
- Rental rates are still feeling the influence of geopolitical issues, which provide a negative background, as well as the pressure of a large volume of new delivery, which may lead to an increase in vacancy even in a stable market.

Overview of the Moscow and Moscow Region Retail Markets

The Central Federal District, and especially Moscow and the Moscow Region, has a special status in that the leading domestic retail operators, as well as foreign retailers establishing their operations in Russia, have a presence there.

The current intensive development in the market is facing a slowdown in the Russian economy and weakening consumer demand. By the end of 2014, quarterly GDP growth is expected to approach 0%, thus close to recession. Retail sales growth is expected to decrease from the recent 3-4% to just 1.1% per annum or even lower.

Additional pressure on the retail property market is being generated by the large scale depreciation of the Rouble against the Dollar and Euro. The major trends are described below:

Moscow City

- By the end of Q3 2014, the total stock of modern retail space in shopping malls in Moscow was about 4.56 million sq m GLA.
- At the end of Q3 2014, the amount of modern shopping centre space per 1,000 inhabitants in Moscow averaged 367 sq m.
- Eleven shopping malls totalling 356,000 sq m GLA were delivered to the market in Q1-Q3 2014. This represents the largest amount of new delivery during the first three quarters in the last six years.
- In Q2 2014, SEC Vesna and SEC Vegas Crocus City were opened, as well as the OBI hypermarket that constitutes the 3rd phase of the Otrada shopping park. In Q3 2014, four new shopping malls were delivered: two of these were part of mixed use complexes (Vodny and MC), and there were two neighbourhood format malls, Bravo and Alfavit
- In Q2 developers announced 2 new retail schemes – SEC Iyun on Preobragenskaya Square, and a shopping mall which forms part of the new mixed use centre in Strogino.
- In Q3 developers announced seven new projects that can be divided into three

groups:

  - **Traditional malls** – Yaroslavka mall (super-regional format), 2nd stage of Viva mall (regional format) and a neighbourhood mall in Zelenograd;
  - **Shopping malls as a part of mixed use complexes** – on Sheremetievskaya Street and Zvenigorodskoye Highway;
  - **Shopping malls as a part of interchange hubs** – Salarievo mall and the shopping centre on Kakhovka Street which is near a planned metro station.

- Current bank lending conditions do not encourage the development of new projects. Given this factor and the duration of the typical development cycle, it is expected that these projects will be delivered not earlier than 2017.
- The vacancy rate just after their opening in all four new shopping malls opened in Q3 was rather high (around 30-40%). Technical launches are therefore still features of the Moscow retail property market. By the end of September, the vacancy rate in the Moscow retail property market increased from 2.6% to 3.8% with the prospect of it exceeding 5% at the end of the year.
- 34 new international chains entered the Moscow market in the first ten months of the year. During Q3 2014, 11 new international chains entered the Moscow market A. Lange & Söhne, Crate & Barrel, Great American cookies, Isaia, Lefties, Magnolia Bakery, Moscot, Penti, Reima, Santoni, and UNOde50.
- The profile of the new entrants to the market reflects their optimism about the prospects for the Russian market. In crisis periods, demand usually shifts towards the economy price segment. However, nearly 45% of the new entrants come from the middle price segment. Shopping centres are still more popular than street-retail units as retail platforms for new chains.
- A noticeable number of retailers have begun to optimise their business processes and have reduced development plans. For example, the Finnish company S-Group had plans to open two Prisma hypermarkets in St Petersburg. However, just recently they decided to freeze development in Russia. Another Finnish company - Stockman – is closing the remaining 16 stores under the Seppala brand.
- More and more retailers are initiating a review of rental terms, and the use of corridors for the Rouble against the US Dollar, as well as a more limited use of indexation rates.
- The reduction of rental rates for anchor tenants since the beginning of the year has amounted to 10-20% on average. The main reasons for these revisions include the Rouble depreciation and a slowdown in retail sales.
- During Q1-Q3 2014, rental rates for prime premises (50-250 sq m) in shopping galleries in major shopping centres were stable in a range from $1,200 to $2,300 per sq m per year. However the same situation may be seen in 2015 as in 2008 when prime rents fell by 20%.
- There are currently 9 shopping malls under construction with an announced delivery date by the end of 2014; they represent a total gross leasable area of 612,000 sq m. It should be mentioned that there is a high probability that the majority of these

projects will be introduced in 2015. The opening date of schemes such as Avia Park, Columbus, Mari and Kuntsevo Plaza could be rescheduled

Moscow Region

- There are currently more than 60 professional shopping centres operating in the Moscow Region. The total stock of retail space exceeds 1.5 mln. sq m. Almost 70% of the current stock is concentrated in Moscow satellite towns such as Khimki, Mitischi, Reutov, Krasnogorsk etc.
- The retail property market in the majority of towns in the Moscow Region that are located more than 30 km from Moscow is represented by neighbourhood format shopping malls. Hence the average penetration rate does not exceed 150-200 sq m/1,000 inhabitants.
- Retailer demand for projects is strong if a project is located either close to Moscow or near major highways.
- Rental rates are usually 10-20% lower than in Moscow shopping malls and depend on the distance from the MKAD and on the level of consumer demand.
- Retail vacancy in the Moscow Region doubled during 2013 and was stable in 2014, mainly because of low new supply. In Q3 2014 it reached 4%. It is widely believed that it will continue to increase because of the large amount of retail space that will be delivered to the market at the end of 2014-beginning of 2015.

Saint Petersburg Warehouse Market

Supply

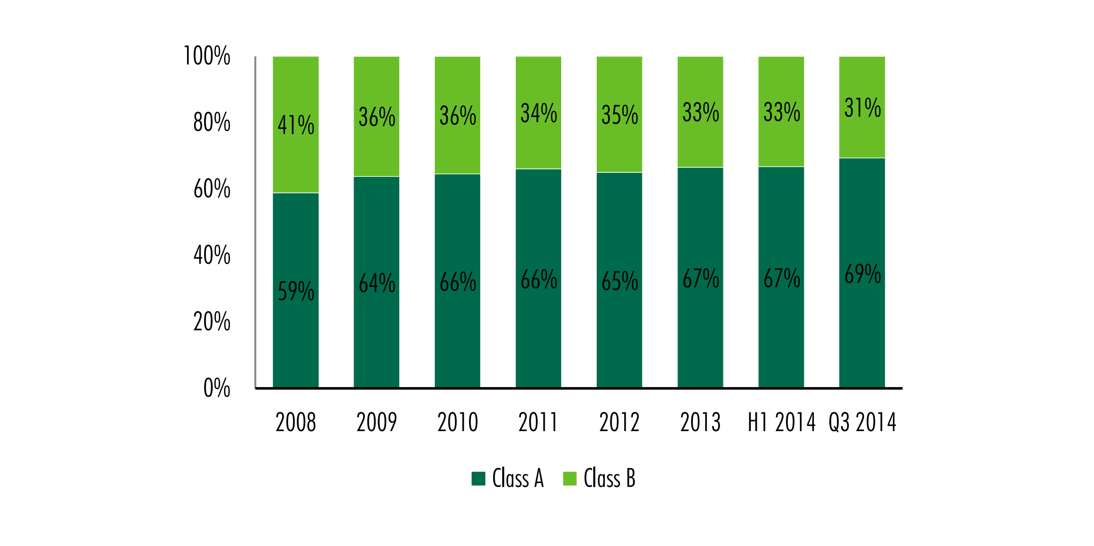
In 2014 the St Petersburg and Leningradskaya Region warehouse market is still experiencing a lack of high-quality supply, while demand is persistently high and rental rates are still high. This has led to the active development of build-to-suit projects.

During Q3 2014, two warehouse centres were brought into the market:

- Osinovaya roscha in Pargolovo, 3rd phase. Total area - 54,000 sq m, class A.
- Armada Park in Shushary. Total area – 75,000 sq m, class A.

As of the beginning of October 2014, the total stock of high-quality warehouse space stood at 1.88 mln. sq m (excluding warehouses built for own use). The largest part of the overall total stock is in class A projects – 69%; class B warehouse complexes account for 31%. There are 170,000 sq m of warehouse complexes under construction. So far, no developers have frozen projects under construction as a result of the difficult economic situation or the imposed sanctions.

Graph 16. Total Stock by Class
2005–Q3 2014



Source: *Maris/part of the CBRE Affiliate network*

Warehouse Market Key Figures
Q3 2014

	Class A	Class B
Delivery in Q3 2014, sq m	129,000	0
Forecast, Q4 2014, sq m	63,000	27,000
Total stock, sq m	1.3 mln.	577,000
Vacancy	4%	1%
Capitalisation rate	12.5-13.5%	13-14%
Rental rate, USD/sq m/year (triple net)	$120-140	$90-115

Source: *Maris/part of the CBRE Affiliate network*

Demand

Demand for warehouse space is high and remains stable. Large companies usually lease warehouses while they are under construction, or build for themselves (build-to-suit). However, there is a lack of small and medium size warehouses.

The main tenants of quality warehouse complexes are retail/wholesale and manufacturing companies.

In the 3rd quarter, three large build-to-suit warehouse construction projects on the A Plus Park Shushary were announced:

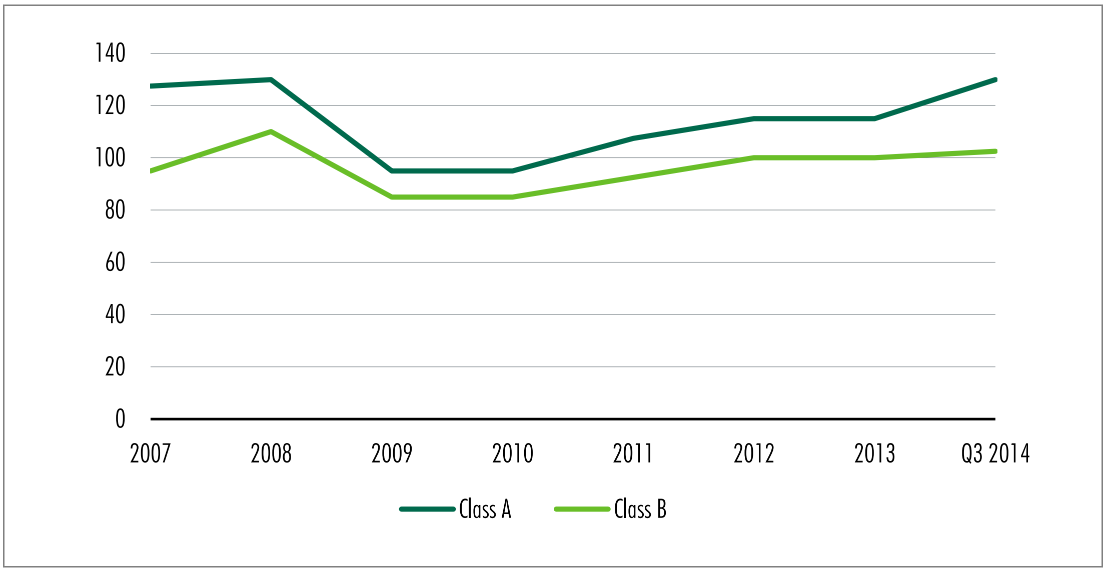
- A warehouse for a large transport company. Total area - 20,000 sq m.
- A warehouse for Norbert Dentressangle Logistics (logistics provider for Danone in Russia). Total area – 12,000 sq m.
- A refrigerated warehouse for Auchan. Total area – 25,000 sq m.

Commercial terms

By the end of Q3 2014, the highest rental rates are within the range of $120-140/sq m/year (triple net).

Rents for warehouse space are quoted in Roubles and USD per sq m per year and do not include VAT and operating expenses. Maintenance costs are estimated at $30-50/sq m/year excluding VAT, and utilities at about $8-10/sq m/year excluding VAT.

Graph 17. Rental Rates, USD/sq m/year (Triple Net)
2007–Q3 2014



Source: Maris/part of the CBRE Affiliate network

The sharp fluctuation in exchange rates over the last few months has forced the majority of landlords to calculate rental rates in Roubles or fix the dollar exchange rates. Many tenants are negotiating with landlords in order to change commercial terms.

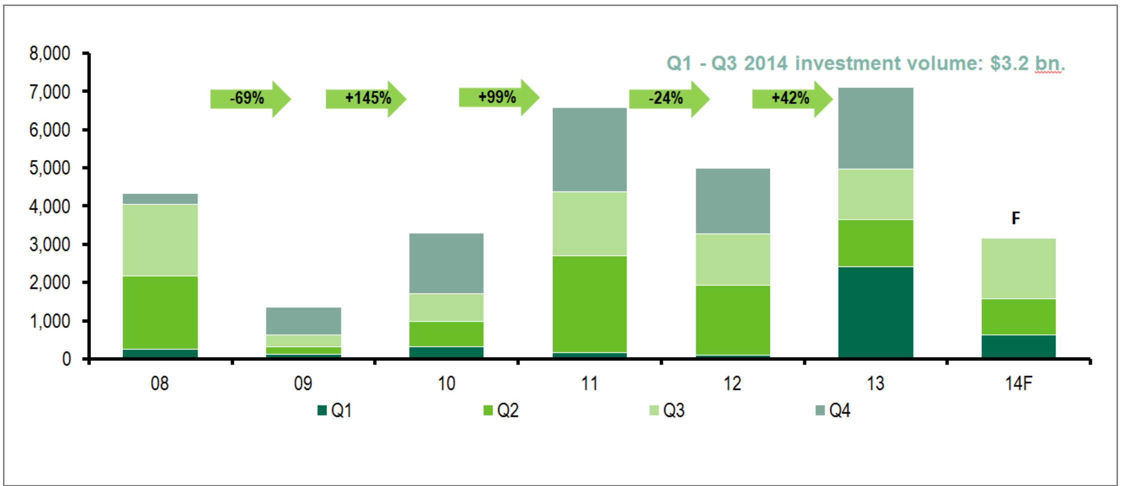
Real Estate Investment Market Overview

Volumes & Transactions

Q3 2014 investment in the Russian commercial real estate market reached $1.6 bn., 20% higher than in Q3 2013 when investment amounted to $1.3 bn.

In the first 9 months of 2014 investment in Russian CRE totalled $3.17 bn, which is 36% less than in the comparable period of 2013 ($4.98 bn).

Graph 18. Total Investment Volume, USD mln. 2008 – 2014F



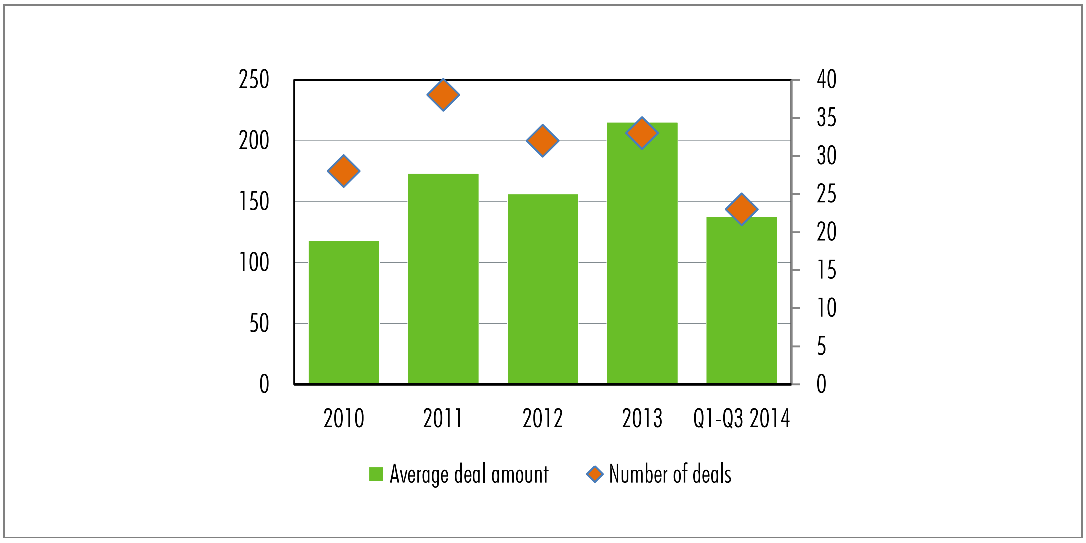
Source: CBRE

We can, therefore, state that geopolitical problems and their outcomes have had a negative impact on the attractiveness of Russian assets.

Tightened lending conditions are adversely influencing investors' readiness to take risks and their price expectations. While investment in European commercial real estate is growing rapidly, in the Russian market investor sentiment is much less optimistic.

A total of 23 transactions were closed during the first 3 quarters, with an average value of $138 mln. each. For comparison, the same number of transactions were closed in Q1-Q3 2013, but the average transaction amount was $216 mln. These figures in 2012 were 22 transactions and $149 mln.

Graph 19. Average transaction amount and number of transactions since, USD mln. $
2010 – Q3 2014



Source: CBRE

Noticeable transactions, Q3 2014

Name	City	Estimated transaction amount, USD mln. $	Purchaser
Pokrovsky Hills Complex	Moscow	380-400	Qatar Investment Authority
Novinsky Passage	Moscow	360	Sait-Salam&Mikhail Gutseriev
Berlin & Geneva House	Moscow	290-330	Eastern Property Holdings
BC Severnoe Siyanie	Moscow	153	Eastern Property Holdings
O1 Properties (6% stake)	Moscow	100	Goldman Sachs
BC Sinop	St. Petersburg	55	RWM Capital

Source: CBRE

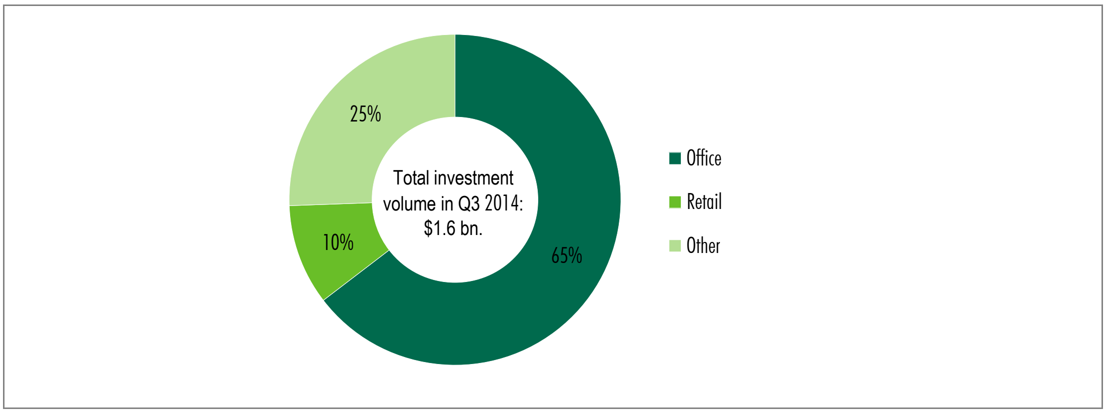
Structure of Transactions

Investors' focus was on the office sector in Q3 2014. Investment in this sector amounted to $1.03 bn., or 65% of the total value. Since the beginning of the year, the office sector has attracted $1.74 bn., or 55% of total investment.

"Others" was the second most popular sector, having benefited from investment inflow, estimated at USD 406 mln., or 25% of the Q3 total. This group includes residential real estate, entertainment and sports facilities. A major part of these USD 406 mln. was down to one large transaction: the acquisition of the Pokrovsky Hills residential complex by Qatar sovereign fund Qatari Investment Authority. In the first 9 months of 2014 the "Others" sector attracted a total of USD 692 mln, or 22% of total investment.

The retail sector was in the 3rd place in Q3 with a total investment of USD 156 mln., or 10% of all investment. From the beginning of the year, USD 200 mln, or 6% of total investment, was invested in Russian retail properties. In the previous years, investment in the retail sector accounted for 20-40% of the total. The current situation can be explained by several factors, including increased competition due to the large amount of new delivery in 2014-2015, as well as the possible unwillingness of owners who continue to feel confident enough despite weakening consumer demand to sell high quality assets.

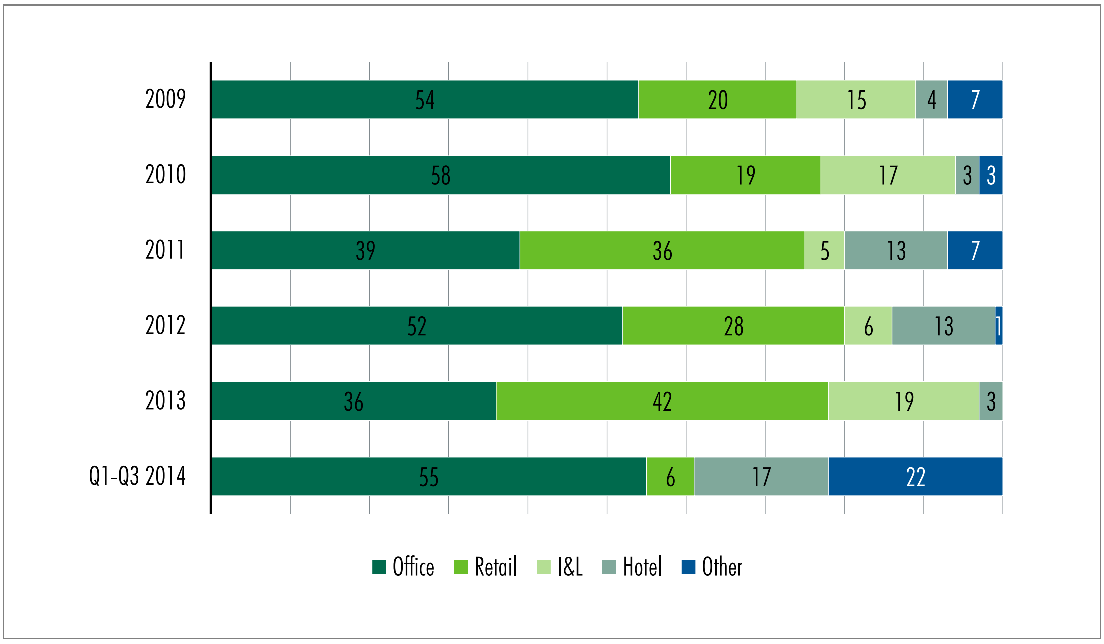
Graph 20. Investment structure by segment, %
Q3 2014



Source: CBRE

The hotel sector has not attracted the interest of investors in Q3. Since the beginning of the year, the total amount of investment in hotels has been USD 533 mln, or 17% of the total.

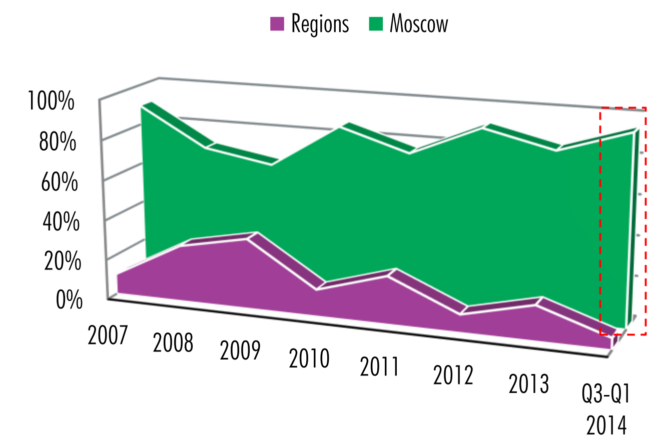
Graph 21. Investment Structure by Sector, %
2009 – Q3 2014



Source: CBRE

Traditionally, the lion's share of investment comes to Moscow: since January 2014 the capital's commercial real estate market has attracted USD 2.98 bn, or 94% of investment turnover. Total investment in St. Petersburg in Q1–Q3 2014 amounted to USD 74.5 mln, or 5% of total investment.

Graph 22. Transactions by Location, %
2007 – Q3 2014



Source: CBRE

Foreign investors in commercial real estate as of the end of September 2014 accounted for 35% of the total. For the same period of 2013, this figure was 27%.

In absolute terms, foreign investment since the beginning of 2014 has amounted to USD 1.1 bn. For the whole of 2013, this figure reached USD 1.89 bn.

In Q3 the main overseas interest in Russian commercial real estate came from the USA, Qatar, and Switzerland. Total foreign investment in this quarter was USD 968 mln., or 61% of total turnover.

Investors from the Middle East have finally materialized their interest in Russian assets: the Qatar sovereign fund made its first acquisition and invested approximately USD 400 mln in the Pokrovsky Hills residential business class complex.

The office sector, with 59% of total investment, and the residential sector, with 41%, were the focus of foreign investors in Q3 2014.

Capitalisation Rates

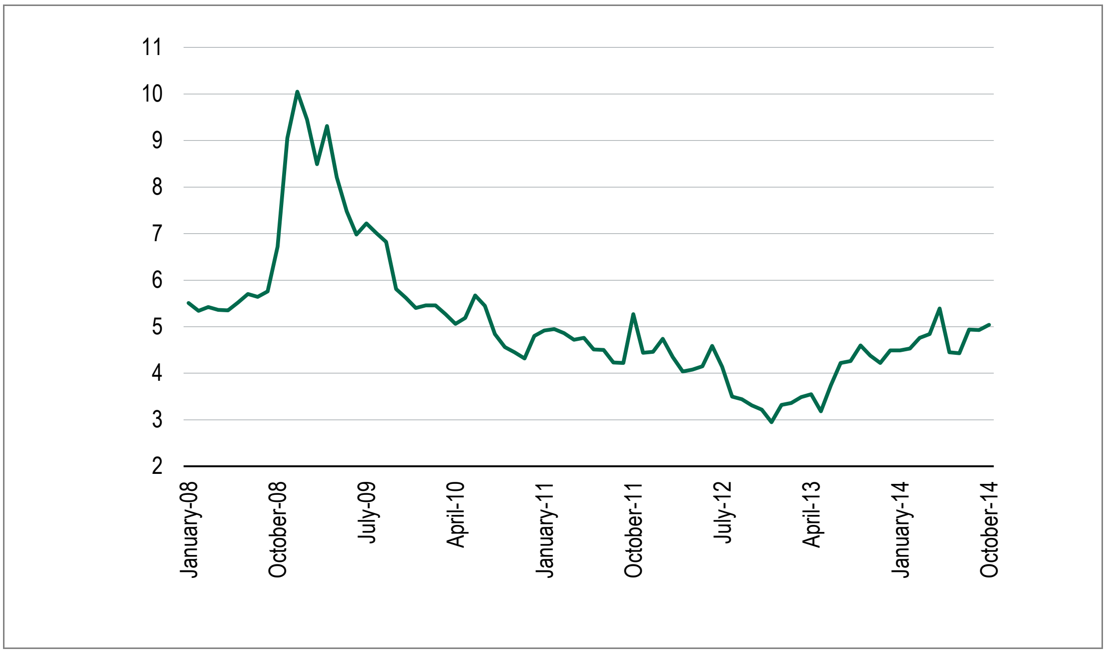
Several events occurred in Q3, which fundamentally influenced the price expectations of investors.

Among others, these include the significantly worsened situation in respect of the availability of funding in the international capital markets as a result of direct sanctions against Russian companies and banks, as well as their indirect effect due to increased concerns of financial institutions in other countries.

Yields on Russian Eurobonds exceeded 5% by mid-October 2014, which is 50-60 b.p. higher than at the beginning of the year.

Another important event is the increased risks posed by the negative trends in macroeconomic indicators and the medium-term downturn in activity by commercial real estate occupiers.

Graph 23. Euro-Cbonds Sovereign Russia, YTM, %

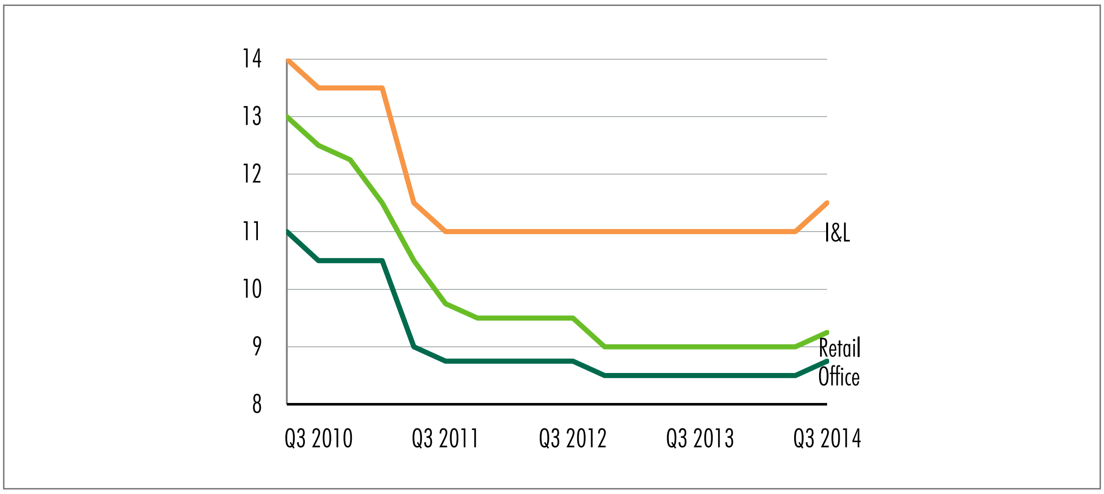


Source: CBRE

In Q3 2014 prime capitalisation rates were the following:

- Office – 8.5–8.75%,
- Retail – 9–9.25%,
- I&L – 11–11.50%.

Graph 24. Capitalisation Rates, %
Q3 2010 – Q3 2014



Source: CBRE

In Q4 2014 the capitalisation rates showed the further growth.

Conclusions & Forecasts

- Increase in vacancy rates and pressure on rental rates will continue in all commercial real estate sectors, at least, until the end of Q1 2015.
- Rouble depreciation and the further decrease in oil prices may create further barriers to the achievement of occupational supply and demand balance.
- Tighter lending conditions may create additional incentives for portfolio optimization for owners, who have a significant debt burden.
- All these factors create interesting opportunities for investors, willing to implement riskier investment strategies.

Conclusions

Having reviewed the internal valuation of the Company Portfolio, CBRE concluded that the Fair Value of the subject Property Portfolio corresponds to the Fair Value of the Portfolio as published in the company's unaudited consolidated annual report for 2014 as of February 5th, 2015.

Yours faithfully

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Yours faithfully

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APPENDIX 1: SUMMARY OF THE PROPERTIES

The Property Portfolio of Sponda Plc consists of six properties held for investment. Four are located in Moscow, one in Moscow Region and one in Saint Petersburg. Approximately 79% of the value of the Portfolio is accounted for by the three office buildings in Moscow. The retail properties, including 2 (two) shopping centres in Moscow and in Ramenskoe in Moscow Region, comprise approximately 18% of the total Portfolio value. The lowest share in the total value of the Portfolio (around 3%) is the warehouse building in Saint Petersburg.

A brief description of the Properties in the Portfolio is provided below:

Adastra

Address: 7, Zanevka warehouse zone, Zanevka Village, Vsevolzhsky District, Leningrad Region, Russia

Main Use: Warehouse Complex (Onninen)

Description: The Property comprises a Class A warehouse complex of 7,872.3 sq m built in 2006.

As at the valuation date, the subject warehouse was fully leased and occupied on a long-term basis by *Onninen, LLC*. The lease expires at the end of 2016.

Meliora Place (Ancor)

Address: 6 Prospect Mira Street, Moscow, Russia

Main Use: Office Centre

Description: The Property is a 4-storey office building (mansion) with 1 level of underground parking, built in 2008. It has a GBA of 4,842.5 sq m and a GLA of 2,783.4 sq m.

The Property is fully let to multiple tenants. The office space in the Property is let on a short-term and long-term basis mainly to local tenants where the areas of the occupied blocks vary from 44 to 382 sq m. The majority of the lease agreements expire in 2015.

Korbis

Address: 4B Vokzal'naya Street, Ramenskoe City, Moscow Region, Russia

Main Use: Solnechniy II Shopping Centre

Description: The Property is a two-storey shopping centre with an additional underground level, built in 2005. The centre comprises 9,018.8 sq m GBA and 6,481.8 sq m GLA with surface parking for 110 cars providing a parking ratio of approximately one space per 59 sq m of GLA.

The Subject Property is located on Privokzal'naya Plashad, in the centre of Ramenskoye City. The advantages of the Subject Property include its central location, convenient access by car and the vicinity of the railway station.

As of the valuation date the Property was 100% let to multiple tenants. The long-term and mid-term leases with anchor and mini-anchor tenants, representing circa 55% of the total revenues, are due to expire between 2015 and 2023. The pool of tenants consists entirely of local companies, some of whom operate on franchises from international brands.

Slavyanka

Address: 6 Borovskoye Shosse, Solncevo District, Moscow, Russia

Main Use: Solnechniy I Shopping Centre

Description: The Property is a two-storey shopping centre with an underground level, built in 2004. It comprises 11,652.8 sq m GBA and 9,107.4 sq m GLA. The Property has surface parking for 140 cars providing a parking ratio of approximately one space per 65 sq m of GLA.

As of the valuation date the Property was 100% let to multiple tenants. The long-term leases with anchor and mini-anchor tenants, representing circa 42% of the total revenues, expire between 2015 and 2024. The pool of tenants consists totally of local companies, some of whom operate on franchises from international brands.

Western Realty

Address: 7 Gasheka Street, Moscow, Russia

Main Use: Office Centre (Ducat II).

Description: The Property is multilevel, with 4 and 10 aboveground office levels and a two-level underground car park. The building comprises 19,201.2 sq m GBA and 14,340.7 sq m GLA. The Property was delivered to the market in 1997.

As of the valuation date the Property was 78% let to multiple tenants. The office space in the Property is mainly let on a long term basis to reputable, internationally recognised tenants. The lease agreements for office space expire between 2015 and 2018.

Bakhrushina House

Address: bld.1, 32 Bakhrushina Street, Moscow, Russia

Main Use: Office Centre (Bakhrushina House).

Description: The building is laid out over six upper floors and a basement level. The building comprises 5,078.8 sq m GBA and 3,864.6 sq m GLA. The Property was delivered to the market in 2002.

At the valuation date the Property was fully leased to reputable, internationally recognised tenants. The lease agreements for office space expire between 2017 and 2018.