

# STATEMENT

Evaluation of the fair value of the investment properties owned by Sponda PLC  
Moscow, Russia

*Sponda Public Limited Company*

**Date of Valuation: December 31, 2016**

# EVALUATION OF THE FAIR VALUE OF THE INVESTMENT PROPERTIES

## Our Assignment

In accordance with the engagement contract #16/10-99CV dated November 01, 2016 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 2 (two) 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, 2016.

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 size and the format of the Meliora Place office centre we relied on the results of Sale Comparison Approach to estimate the fair value of this Property.

We have used gross floor areas as shown in the title documents. This valuation was based on the assumption that the 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 Properties were inspected in the period between May 20, 2015 and June 5, 2015. We have been confirmed by the Client 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 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**

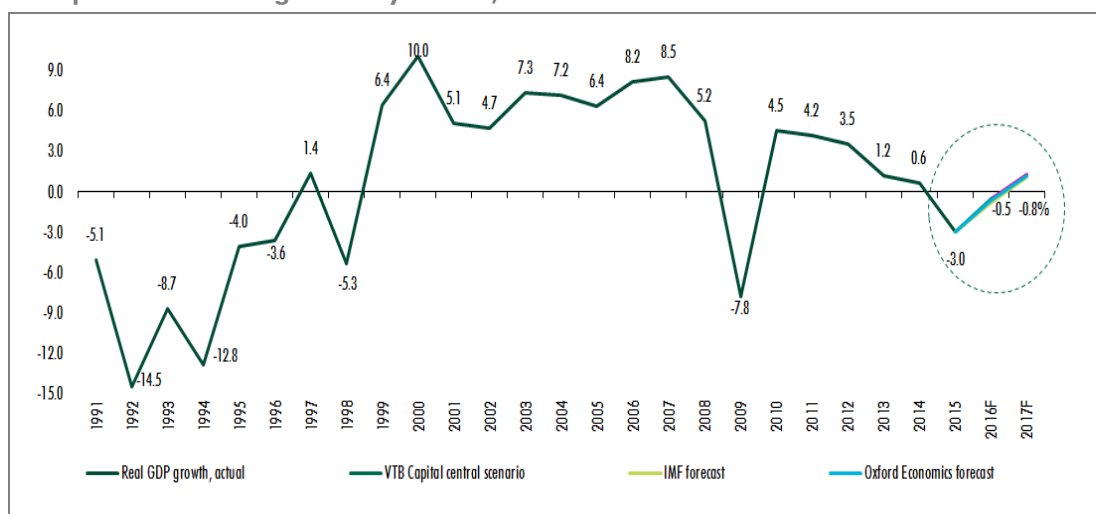
We would draw your attention to the fact that the current volatility and uncertainty in the Russian economy and financial market has created a significant degree of turbulence in commercial real estate market. Without stable market conditions, limited liquidity in the market and transaction evidence, 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

2016 was the year of macro stabilisation, when oil price was at 40-50 dollars per barrel since April that insured lower rouble volatility. The later allowed macro forecasts to be positively upgraded by the experts. Base forecast of the Ministry of Economic Development (MED) implies GDP decline of 0.8% in real terms in 2016 and growth of 1.9% in 2017.

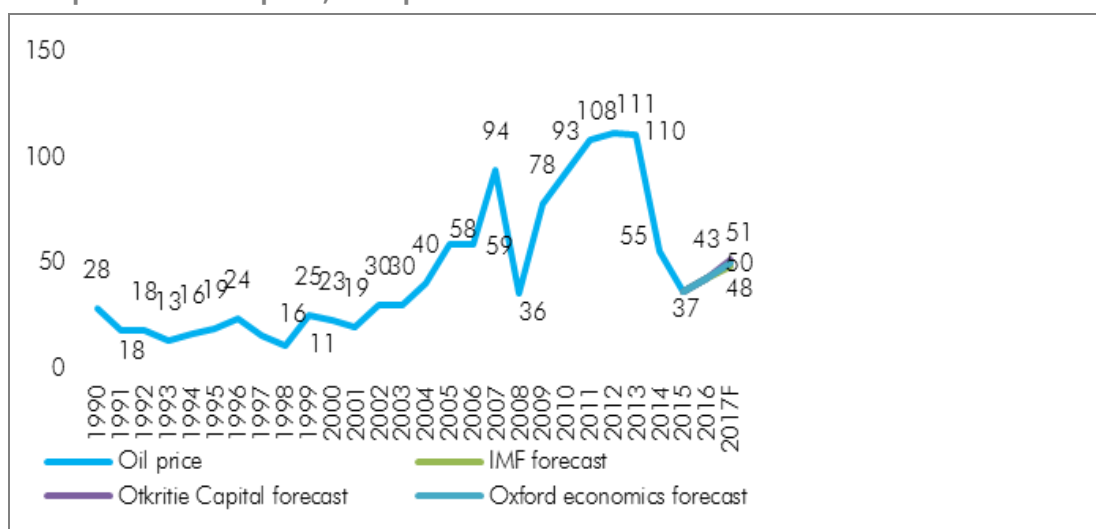
Graph 1. Real GDP growth dynamics, %



Source: Rosstat, Ministry of Economic Development

Despite the key rate cut by the Bank of Russia, the banking finance is still not attractive for new project development. Proactive developers are looking at new projects and getting permits so to be able to start project realisation when the debt market improves.

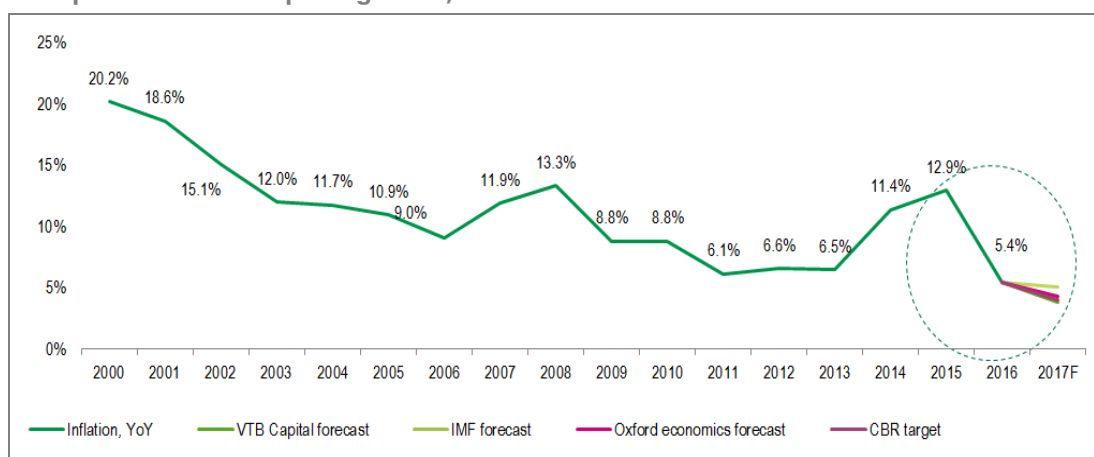
Graph 2. Brent oil price, USD per barrel



Source: Rosstat, Ministry of Economic Development

According to Rosstat, headline inflation was down to 5.4% YoY in December, from 5.8% YoY a month earlier. Food inflation, which declined to 4.6% YoY, from 5.2% YoY in November, was the key force pulling the headline index lower. In particular, the decline was mostly driven by lower inflation in the fruit and vegetables category. Non-food inflation declined to 6.5% YoY, from 6.7% YoY the month before. Services inflation declined to 4.9% YoY vs 5.3% YoY in November.

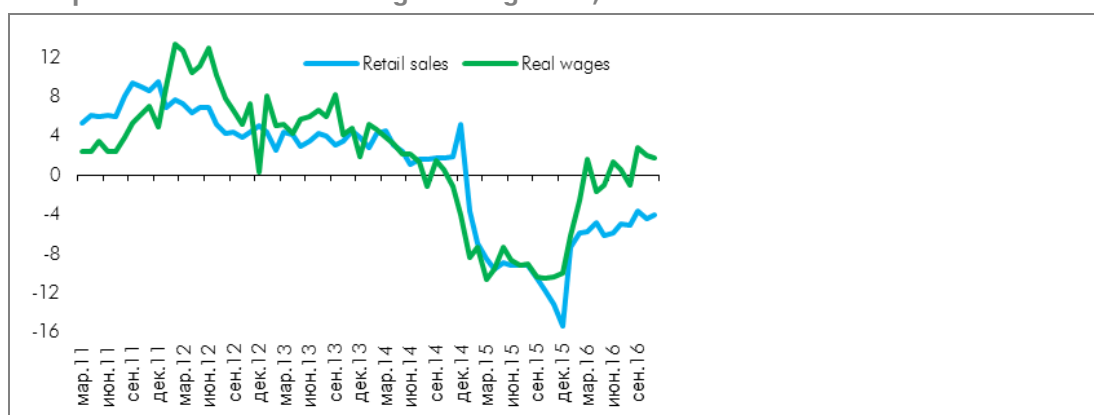
**Graph 3. Consumer price growth, % YoY**



Source: Rosstat, Ministry of Economic Development

Weaker wage increase in public administration and defence held back headline wage growth, which has been significantly reviewed downward for the second month in the row. October indicator was reviewed from 8.2% YoY to 6.5% YoY because of the lower wage growth in the public sector, which printed around 3.8% YoY, compared with almost 8.0% YoY in September. That came on the back of a decline in wages in public administration and defense, which printed -0.3% YoY, from 10.0% YoY in September.

**Graph 4. Retail sales and wages real growth, %**



Source: Rosstat

In the reported period, retail turnover recovered slightly, to -4.1% YoY, from -4.2% YoY in October. The food category was what pushed the headline turnover index higher, while the slowdown in the non-food category partly offset the former: the food category was down -5.1% YoY (from -5.3% in October) and the non-food category slipped to -3.2% YoY (from -3.1% YoY).

As a result of real income growth still being in the negative territory in Jan-Nov of 2016 at -5.8% YoY, retail sales resulted in -5.1% YoY in the respective period.

**Graph 5. Industrial production and fixed investment real growth, %**



Source: Rosstat

Recent signs of a recovery in investment demand finally becoming a reality. The value of construction works was back in positive territory in November, printing 1.4% YoY, after a decline of 0.8% YoY the month before. Notably, construction has shifted from the negative territory for the first time since December 2013, foreshadowing a further improvement in investment activity.

Industrial production growth in November improved to 3.2% YoY, from 2.7% YoY the month before, the highest figure since the end of 2014. As a result, industrial production growth improved to 1.1% in 2016 from -3.4% in 2015.

## Moscow Office Market Overview

### Supply

The volume of completions by the end of 2016 amounted to 317,000 sq m, which is more than twice lower than in the last year. Most of the business centers commissioned in 2016 belonged to the class B (78% of the volume of new supply). The share of class A in the volume of completions decreased from 45% in 2015 to 22% in 2016.

The largest new business centers are CSKA (40,900 sq m), G10 (30,300 sq m), Nagatino i-Land Descartes (28,100 sq m), Danilovskaya Manufactory Meshcherin (25,800 sq m).

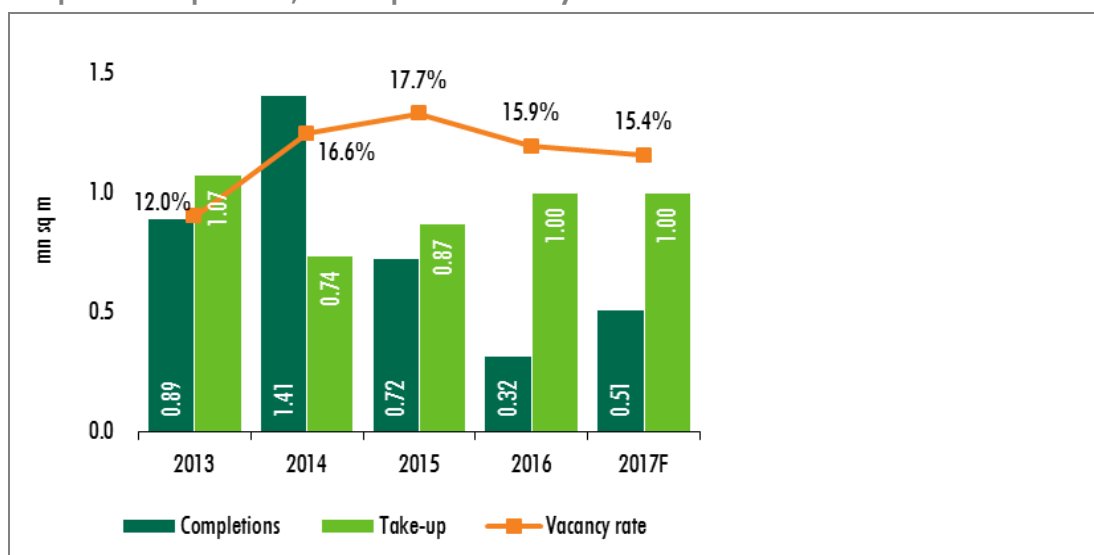
Low development activity is reflected in the lack of new large office projects and the postponement delivery of many business centers scheduled to be commissioned in 2016.

In 2017, according to the announcements, 507,000 sq m of new office space will be commissioned. It is noteworthy that the bulk will be in Moscow City (236,000 sq m – IQ-quarter and Federation Tower East) and the Central Business District (64,000 sq m).

Thus, about 75% of the new delivery in 2017 will localize in two key submarkets: Moscow-City and CBD. Limited construction of new quality projects contributes to further “washout” of quality product from the market for large tenants.

Most of the projects that are scheduled for commissioning in 2017 are at a high stage of completion, since their construction began before 2013.

**Graph 6. Completions, take-up and vacancy rate**



Source: CBRE Research, 2016

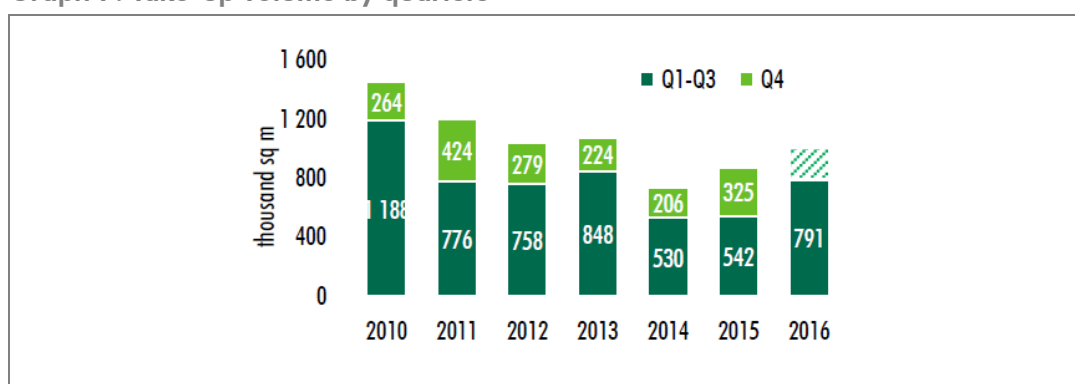
## Take-up

Take-up volume in Q3 2016 increased by 10% compared to Q3 2015 and amounted to 233,600 sq m. Class B accounted for 65% of this value or 152,900 sq m.

According to our estimates take-up volume in 2016 will increase by 15% compared to 2015 and will amount to 1 mn sq m. The first half of 2016 was influenced by trends formed in 2015: the demand for office properties maintained large transactions carried out by state agencies or companies with state participation, which often had non-market nature and have been associated with the settlement of the debt. Such transactions include VTB purchase of Eurasia Tower and President Plaza by Sberbank.

The volume of transactions for new leases and acquisitions in 2016 amounted to 860,100 sq m in total.

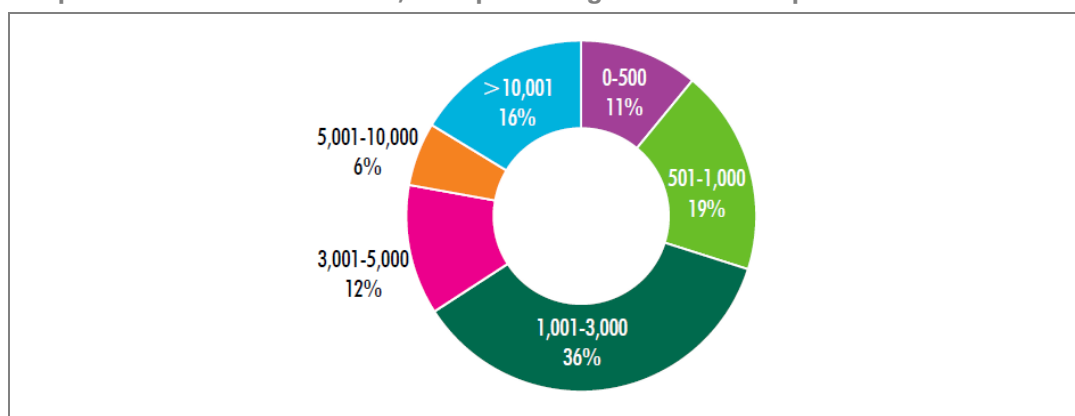
**Graph 7. Take-up volume by quarters**



Source: CBRE Research, 2016

Medium-sized office premises with an area of 1,001-3,000 sq m were the most demanded in Q3 2016 (36% of take-up).

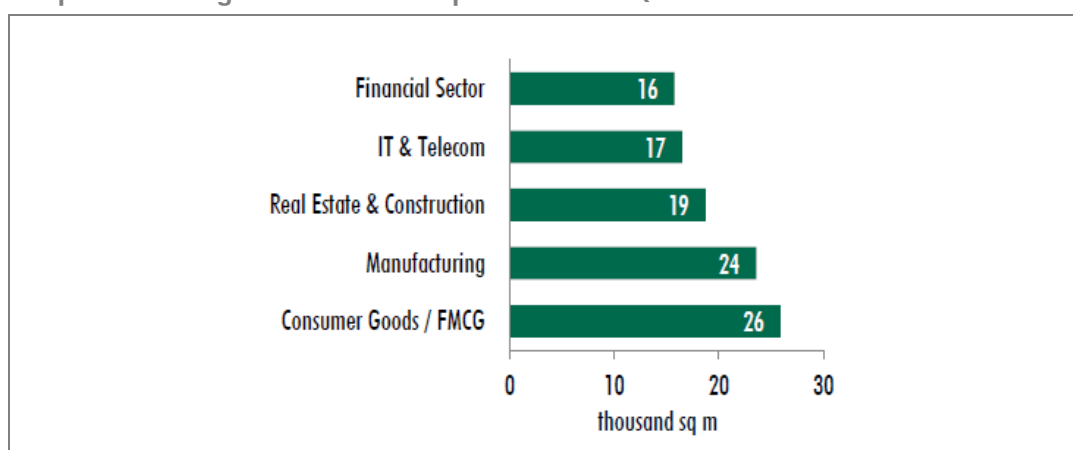
**Graph 8. Structure of deal size, as a percentage of the take-up**



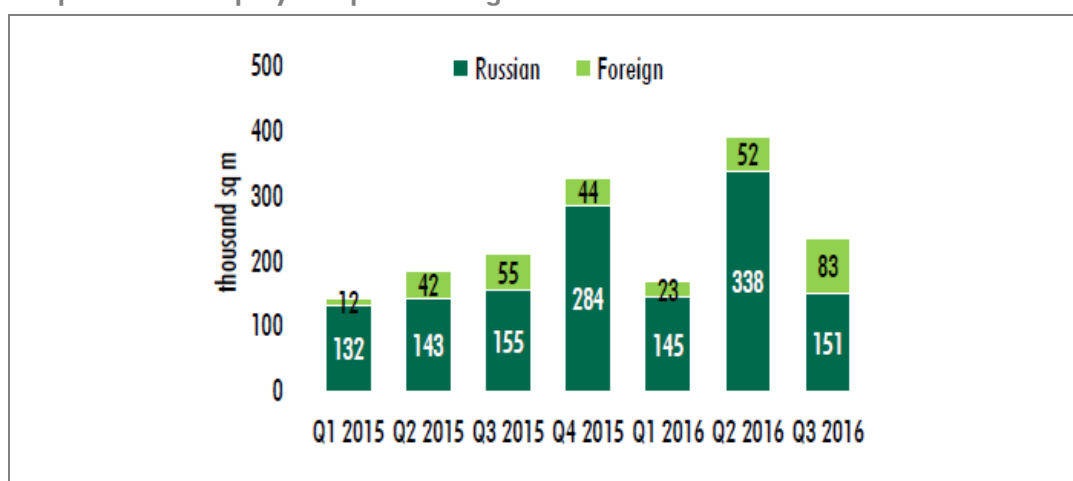
Source: CBRE Research, Q3 2016

In Q3 2016 foreign companies became more active, the amount of office space occupied by them increased 1.5 times YoY. At the same time, the demand from Russian companies still formed the major volume of take-up.



**Graph 9. Leading sectors in take-up structure in Q3 2016**

Source: CBRE Research, Q3 2016

**Graph 10. Take-up by companies' origin**

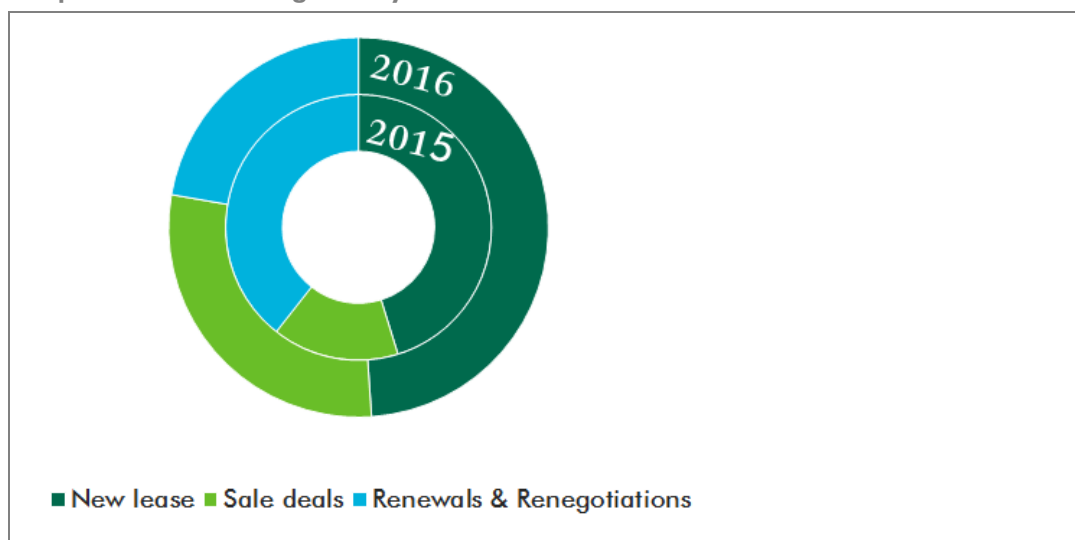
Source: CBRE Research, Q3 2016

**Table 1. Largest deals in Q3 2016**

Company	Area, sq m	Property	Address	Class
Samsung Electronics	10,000	Novinsky Passage	31 Novinsky Boulevard	A
Binbank	5,100	Dominion	5 Sharikopodshipnikovskaya Street, bld. 1	A
TNS energo	4,100	The Nastasyinsky Place	4 Nastasyinsky Lane, bld. 1	B+
Game insight	3,300	Gorky Park Tower	15a Leninsky Avenue	B+
Armo	3,100	Arcus II	37 Lenigradsky Avenue, bld. 14	B+

Source: CBRE Research, Q3 2016

After being significant share of leasing activity in 2015, the volume of renewal and renegotiation deals noticeably decreased in 2016. Since the second half of 2016 demand indicators improved – the tendency to increase the volume of new transactions closed on market terms. We expect strengthening of this trend in 2017.

**Graph 11. Total leasing activity structure**

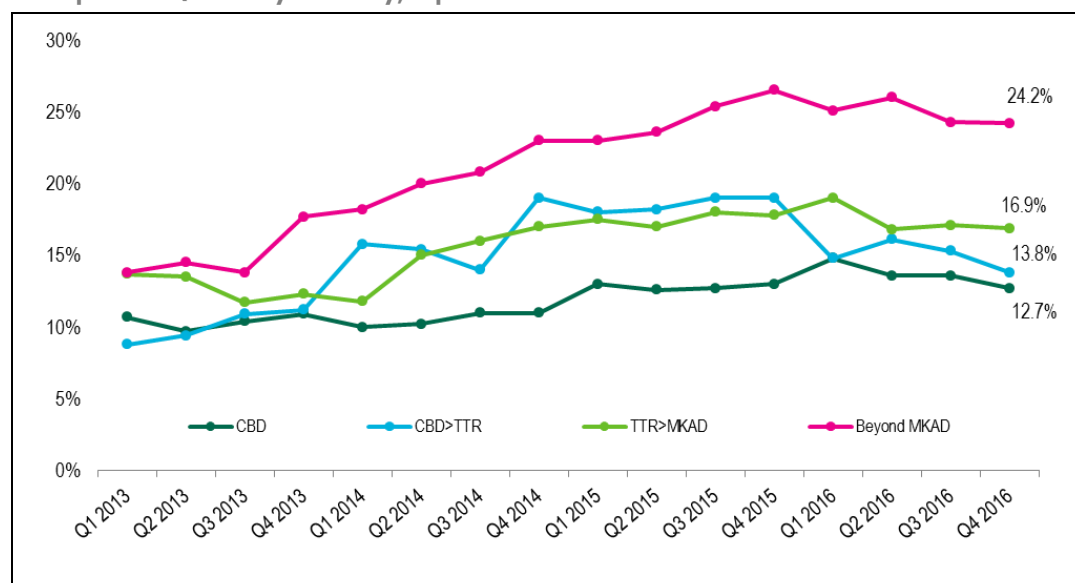
Source: CBRE Research, 2016

### Vacancy

In 2016 office real estate market demonstrated positive trend of vacancy reduction.

Vacancy rate by the end of 2016 reached 15.9% which is 1.8 pts less than in 2015. Most significantly the vacancy rate decreased in the class A segment, from 26% at the end of 2015 to 18.6% at the end of 2016.

In 2017, vacancy will continue to decline, reaching 15.4% at the end of the year. We expect stable vacancy in the class A, as a number of major business centers is planned for commissioning. In the class B in 2017 perhaps a more significant decline in the vacancy rate, from 14.9% at the end of 2016 to 14% in 2017.

**Graph 12. Quarterly vacancy, sq m**

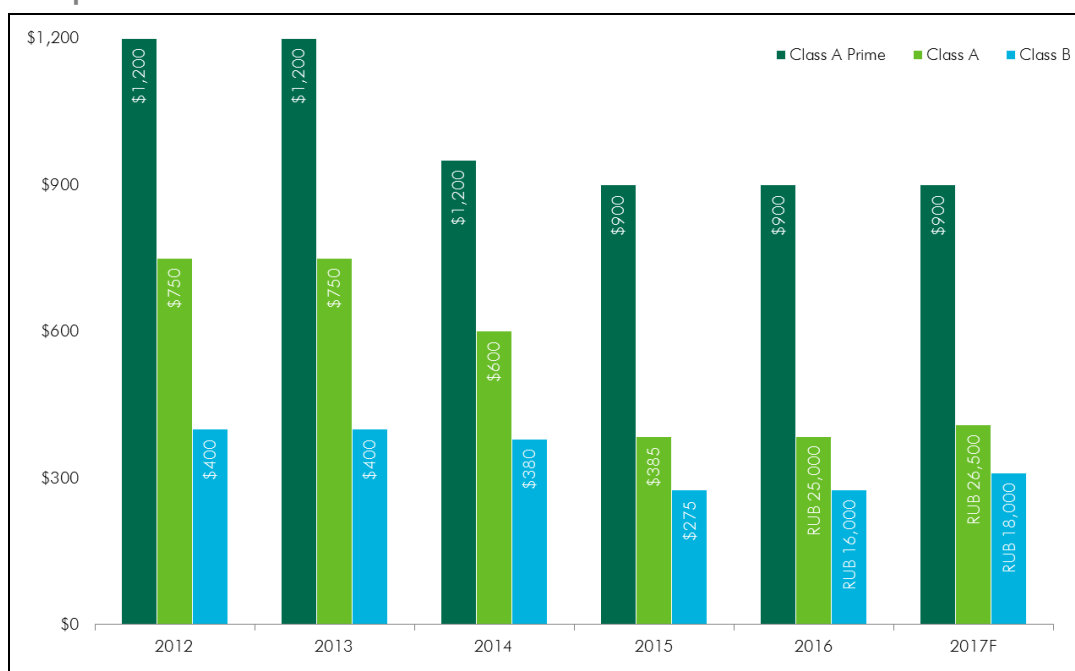
Source: CBRE Research, 2016

## Rental rates

Rental rates in 2016 were stable. At the end of the year their level is established in the following ranges (all rates exclude VAT and operating expenses, per year):

- Class A Prime – \$800-900
- Class A in CBD – RUB 26,000-35,000
- Class A beyond TTR – RUB 18,000-25,000
- Class B in CBD – RUB 16,000-28,000
- Class B beyond TTR – RUB 13,000-23,000

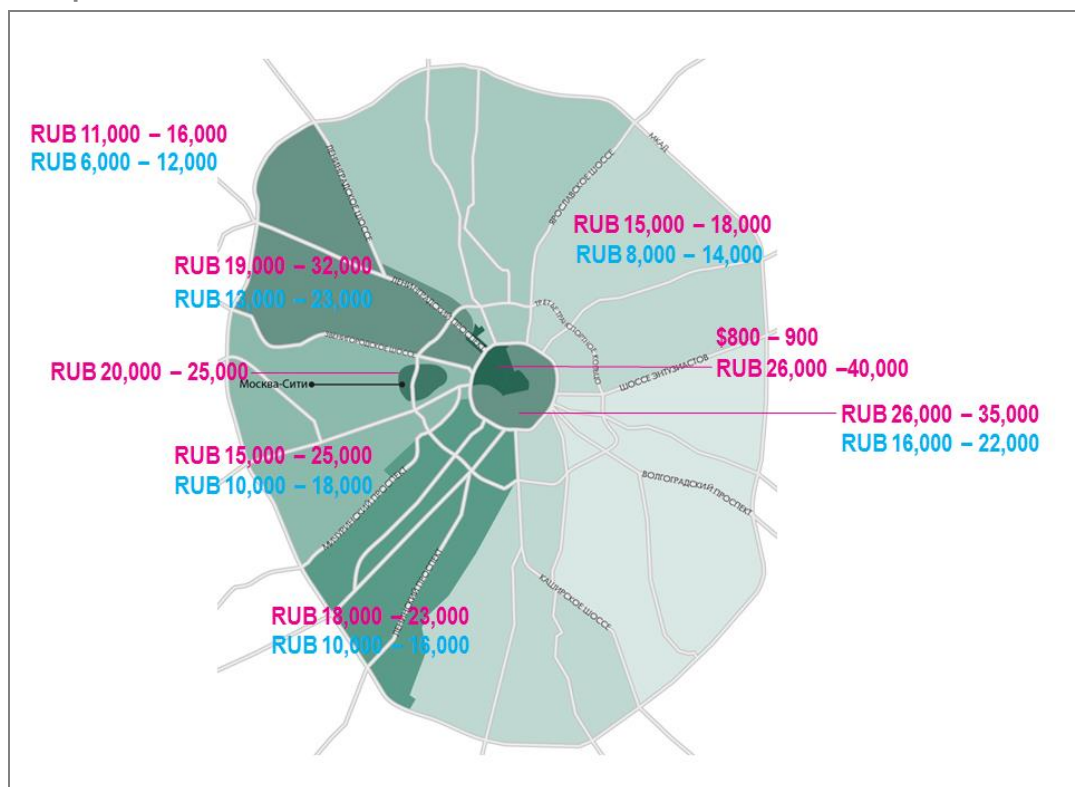
**Graph 13. Office rental rates**



Source: CBRE Research, 2016

In 2017 asking rental rates will remain predominantly nominated in Roubles, and the gradual normalization of the external background may allow for growth of rates in Rouble terms by 5-10%.

Graph 14. Office rental rates within Moscow



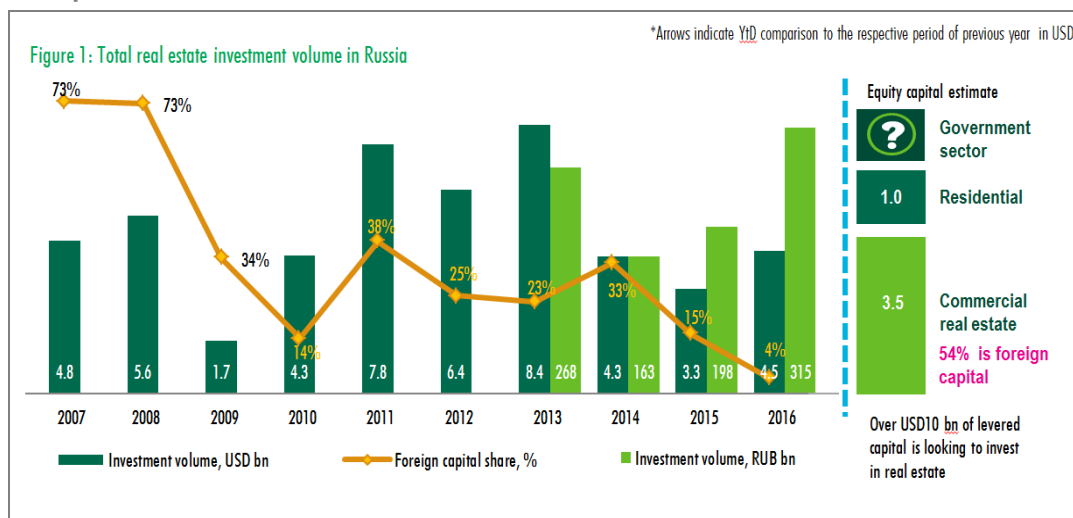
Source: CBRE Research, 2016

## Real Estate Investment Market Overview

### Key trends

- The investment volume in 2016 amounted to USD4.5 bn (or RUB315 bn), being 37% higher than the same period of 2015 in dollar terms. About 34% of this amount has been formed by the government sector deals, while there were no such deals in 2015. There were also several large deals done by governmental banks, where the debt has been exchanged for the asset, which we do not include into investment volume due to their non-cash nature.
- There was still significant mismatch between buyer and seller expectations that in some cases prevented deal closure. Meanwhile, there is high investment activity in the market.
- The share of Moscow amounted to 71% in 2016 compared to 94% in 2015. At the same time deals were closed not only in St. Petersburg, but also in other regional cities, in Rostov-on-Don, Novosibirsk, Sochi. One hotel deal of Regional Hotel Chain purchase covered 8 regional cities.

Graph 15. Total investment volume in Russia



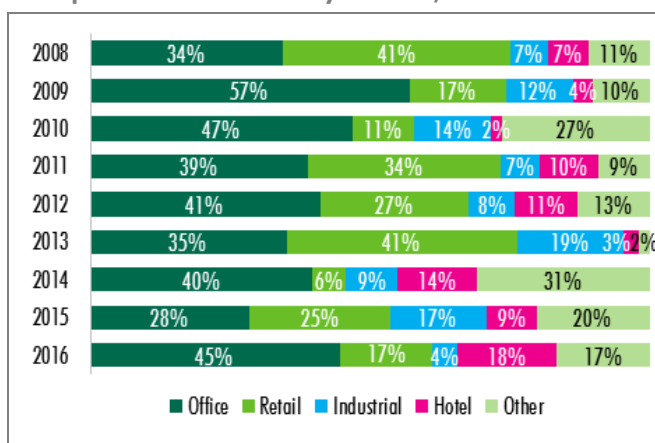
Source: CBRE Research, 2016

Volumes and structure

Offices were the leading sector in investment structure in 2016, with 45% of volume. The investment shares of hotels (18%), retail real estate (17%), and residential (14%) were almost equal. The hotel weight was at the record high for the last 10 years, while logistics share declined to approximately 4%.

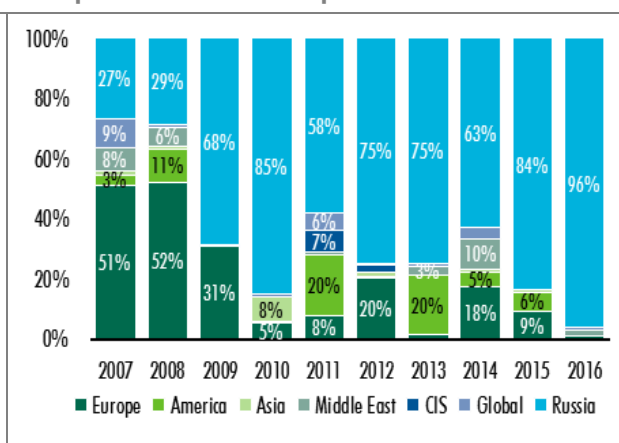
There is about USD3.5 bn of private equity capital available for commercial real estate investment on the Russian market, according to our estimates. Another USD1 bn is available for residential investments. There is also government structures interest that is difficult to measure. On the back of stability and expectations of gradual economic and market recovery, as well as understanding of available capital on the market, we forecast the investment volume in 2017 to be at USD5 bn.

Graph 16. Investment by sectors, %



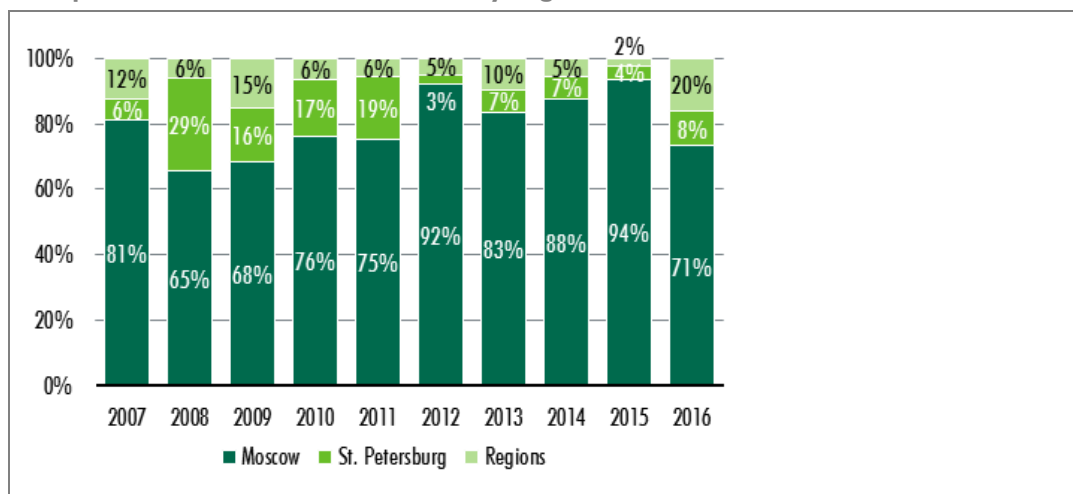
Source: CBRE Research, 2016

Graph 17. Source of capital



Source: CBRE Research, 2016

Graph 18. Investments distribution by region



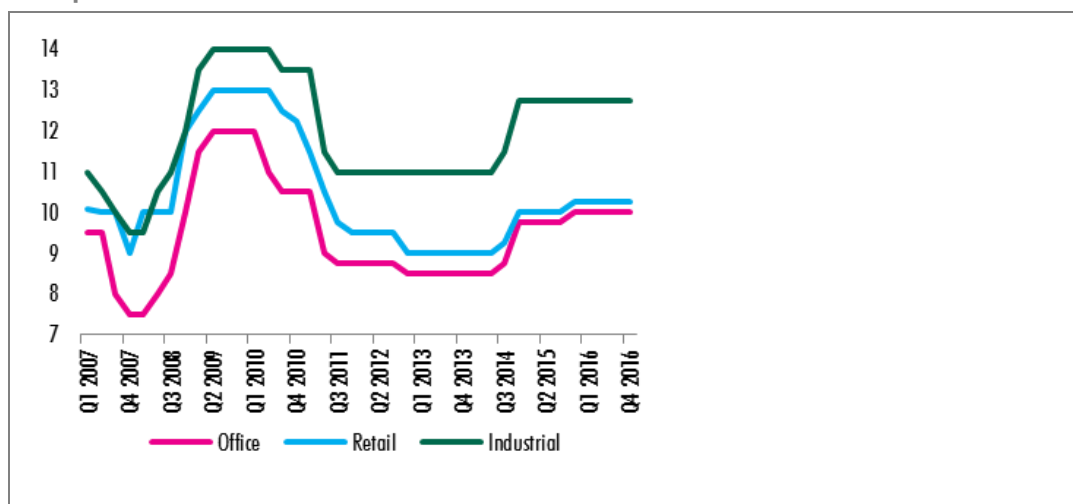
Source: CBRE Research, 2016

### Capitalization rates

Current capitalization rates for prime properties in Moscow are the following:

- Office – 9.75 – 10.25%;
- Retail – 10 – 10.5%;
- I&L – 12.5 – 13%.

Graph 19. Total investment volume in Russia



Source: CBRE Research, 2016

The risk premium for investing in high-quality "second tier" properties may add around 100 – 200 basis points, and in regional properties – 200 – 400 basis points.

## 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 interim report for 2016 as of February 3<sup>rd</sup>, 2017.

Yours faithfully



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For and on behalf of

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Yours faithfully



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Project Reference: 16/10-99CV

## APPENDIX 1: SUMMARY OF THE PROPERTIES

The Property Portfolio of Sponda Plc consists of two properties held for investment. They are located in Moscow.

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



**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 3,032.4 sq m.

As of the valuation date the Property was 92% 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 42 sq m to 382 sq m. The majority of the lease agreements expire in 2017-2018.



**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 14,105.1 sq m GLA. The Property was delivered to the market in 1997.

As of the valuation date the Property was 75% let to multiple tenants. The office space in the Property is mainly let to reputable, internationally recognised tenants under mid-term lease agreements. The lease agreements for office space expire between 2017 and 2020, the majority – in 2017-2018.